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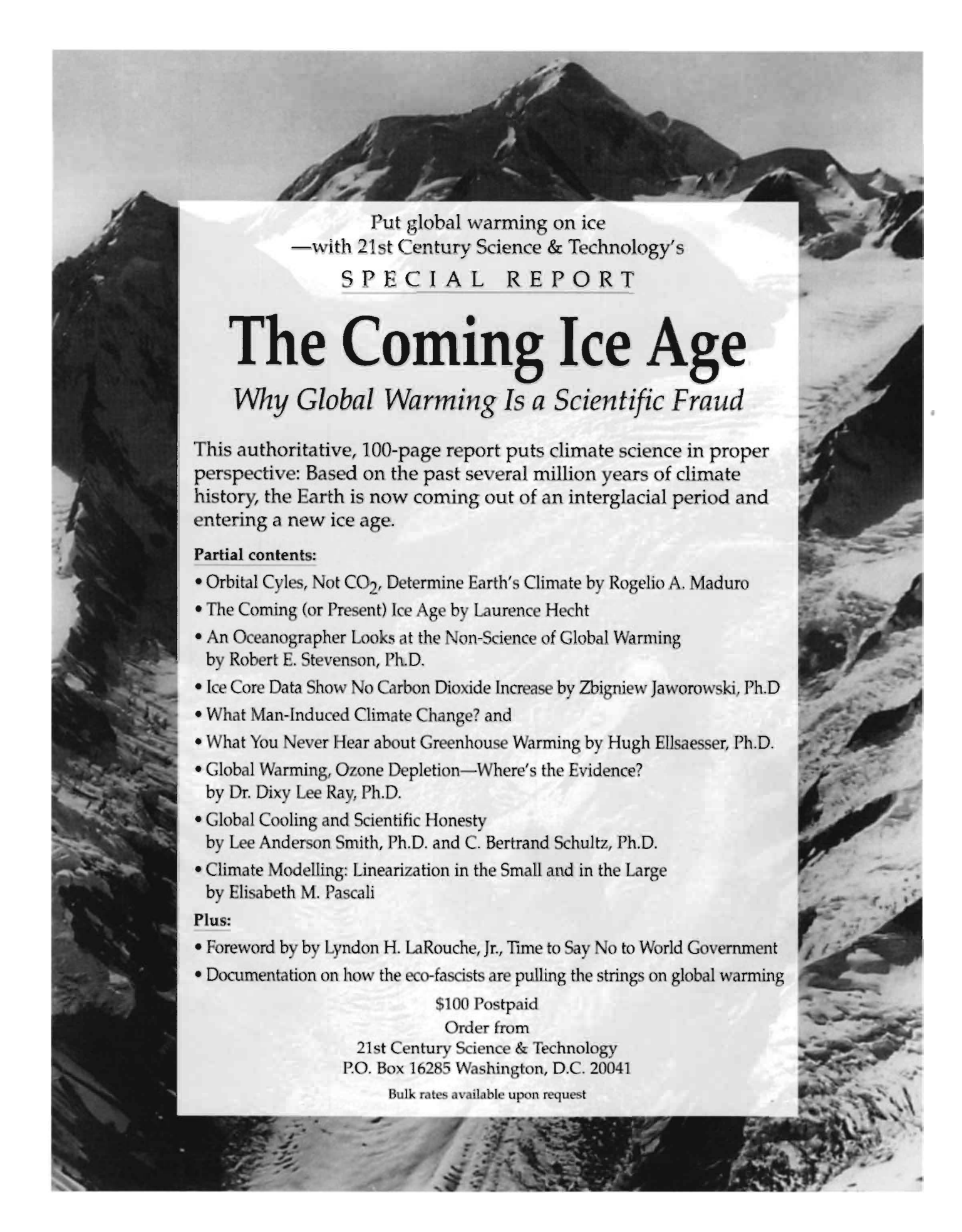
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**Prince Philip's minions
lash out against LaRouche**





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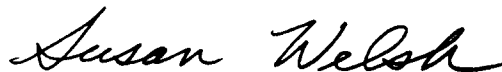
From the Associate Editor

Lyndon LaRouche and *EIR*, on the one side, versus Prince Philip and a New Dark Age on the other—that is the global war which we now see reflected in the battle over the death of Princess Diana which is breaking out in the British press, and which is the subject of this week's *Feature*. The outbreak of this conflict is intimately related to the fact that Phase II of the "Asian" crisis is spreading out of Asia, and shaking those with any sense into an awareness of the crisis. As the Deputy Prime Minister of Thailand said, a collapse of the Japanese yen could trigger a second Asia crisis, with disastrous consequences. "It would pull the whole world into it," he said. "It would be like a black hole. The second Asia crisis would mean the first worldwide depression."

Under these crisis conditions, the House of Windsor has once again unleashed British poison-pen Ambrose Evans-Pritchard. Stung by *EIR*'s exposés of his role for British intelligence in running the assault on the U.S. Presidency, he was driven out of the United States by the LaRouche movement about a year ago. He attempted to defend himself, in the April 20, 1997 *Sunday Telegraph*: "Let me state for the record that I was not sent to Washington as part of a British government plot to destabilize the Clinton administration in revenge for U.S. meddling in Ulster. Or at least, I don't think I was." "Contrary to assertions made in a Congressional hearing," he continued, referring to testimony submitted by *EIR* in 1994, "I have never worked for British military intelligence, or MI5, or MI6, or for that matter MI7.5—the fabled Welsh branch!"

The fight has never been so much out in the open. LaRouche's ideas are reverberating in all the important capitals of the world. Who will act in time, to prevent a worldwide plunge into a Dark Age?

In this issue, we highlight the importance of President Clinton's trip to China, with a sobering strategic analysis by Helga Zepp-LaRouche, and an historical overview, by Jonathan Tennenbaum, of China's physical economy, since the founding of the People's Republic of China in 1949.



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Dr. O'Brien is a meteorologist and physical oceanographer who directs the Center for Ocean-Atmospheric Prediction Studies (COAPS) at Florida State University in Tallahassee.

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BIS central bankers admit, they can't solve the crisis

by William Engdahl

On June 8, the governors of the world's leading central banks, among them German, French, British, American, and Japanese, issued their public consensus view of the global financial situation at the annual Basel, Switzerland meeting of the Bank for International Settlements. The BIS view, made public the same day in its *Annual Report*, demonstrates clearly that the mighty central bankers, assumed to hold all the world under their control, in fact have no idea how to deal with the global financial crisis. They are whistling past the graveyard, filled, in this case, with the bones of the bankrupt postwar International Monetary Fund (IMF) system, from Ibero-America to Russia to Indonesia, South Korea, and, now, Japan, and threatening Hong Kong and China, if the policy of key governments is not radically altered.

In his summary in the *Annual Report*, BIS Managing Director Andrew Crockett's claims that "in spite of the traumatic events in Asia, . . . the economic prospects for the rest of the world are thought to look generally positive." He adds, "Events in Asia have even been interpreted positively by some, as a confirmation of the dominance of the market-driven model of economic growth that has become increasingly fashionable since the 1970s," a reference to Margaret Thatcher's "free market" model.

But, aside from the unworkable declarations that BIS rules for sound banking must be implemented to prevent future crises, a bit of the reality of the present situation emerges from between the lines of the Crockett report. He admits that the governing authorities are in effect canoeing white water rapids with no paddle. The BIS chief says that the Asian situation "was the first crisis in the postwar period featuring the combination of banks as the principal international creditors, and private sector entities as the principal debtors. Principles of how to manage and resolve a crisis

of this sort were not known in advance and, indeed, are still under discussion."

While the BIS fiddles . . .

While the world's leading central bankers continue their "discussions," reality is unfolding with ruthless efficiency. During the week of June 8, the currencies of all Asia began a new descent. The nominal trigger for sharp currency declines across most of Asia, was the plunge in the Japanese yen to its lowest level in eight years, at 144 yen to the dollar.

Indeed, so extreme has the fall of the yen been in recent weeks, from 123 yen to the dollar in February, that the South Korean won is now 20% higher against the Japan yen compared with the beginning of the year! This, despite the severe problems that have hit Korea since late last year. In April, Korean industrial production fell by an annualized rate of 10.8%, the sharpest decline since the end of the Korean War in 1954. Many debt-ridden Korean companies are operating at 62% or less of capacity. If Korea is unable to make major export gains in the coming months, the entire economy of the world's 11th-largest industrial nation is threatened with oblivion.

Korean President Kim Dae-Jung, in the United States on June 6-13 in an effort to win U.S. investment in salvaging Korean industries, has ordered his Minister of Economy and Finance, Lee Kyu-Sung, to prepare measures to try to minimize damage to Korean exports from the falling yen. Estimates are that were the yen to reach 150, the competitive advantage that Korean exports now have over rival Japanese goods would disappear entirely, and Korea would be forced to consider another damaging devaluation to survive. Some 40% of all Korean exports to the United States, including cars, electronics, and semiconductors, compete directly with

similar Japanese exports.

Already, according to estimates by Morgan Stanley-Asia, part of the U.S. investment firm, the economies of Korea, Thailand, and Malaysia have slid from severe recession conditions, into full-blown depressions. Analysts define depression as negative economic growth and sharp production cut-backs accompanied by a price deflation. By that definition, Indonesia already has sunk far beyond depression, with its annual Gross Domestic Product expected to collapse by 20% or more this year. The further collapse of the yen threatens to turn the East Asian crisis into a new chamber of economic horrors. In 1997, fully one-third of all East Asian exports went to Japan. Since January, given the depressed Japanese domestic economy, those exports have fallen markedly, at a time they urgently need to rise.

Thailand's Deputy Prime Minister Supachai Panitchpakdi, commenting on the effect of the falling yen on June 11, said that it "might trigger a second crisis" of competitive currency devaluations in Asia that would be much stronger and more serious than the first wave. "It would pull the whole world into it. It would be like a black hole. The second Asian crisis would mean the first worldwide depression. Asia's second crisis . . . would become the world's first financial crisis. And so, recession in Asia could be turned into a worldwide depression."

The looming danger at this point is the impact of the yen collapse on the economies of China and Hong Kong. Dai Xianglong, governor of the People's Bank of China, told a seminar on June 9, "The depreciation of the Japanese yen has had very unfavorable effects on China's imports and exports and inflow of funds." In May, China's exports fell for the first time in 22 months.

On June 11, Zhu Bangzao, a Chinese Foreign Ministry spokesman, stated, "We hope Japan and the relevant countries can face the reality and use courage and wisdom in taking further measures to stop the further devaluation of the yen, to create the necessary conditions for the recovery of the economy." Such blunt statements from senior Chinese officials are highly unusual. Until recently, Japan was looked to as a model of centralized, government-steered economic prosperity by many Chinese planners.

Fears that the yen's fall will force China to devalue in order to keep its exports competitive, grow by the hour. Intimately linked to China's course is Hong Kong, the largest financial market in Asia outside Japan. The Hong Kong dollar has been pegged to the U.S. dollar for more than 14 years, and last October, Hong Kong officials resisted speculative attacks, at great cost to the domestic economy.

In Hong Kong, stocks plunged to new lows in the Hang Seng stock market every day of the week of June 8. High short-term interest rates, set automatically by the Hong Kong Monetary Authority to defend the peg to the U.S. dollar, have forced large selling of stocks to cover losses, with the Hang Seng down to 1995 lows.

The problems in Hong Kong are being severely aggravated by the sharp pullback of the area's largest foreign bank lenders. Debt-strapped Japanese banks are cutting credits and calling in loans there. "We have seen a substantial curtailment of activities of the Japanese banks," Hong Kong Chief Executive Tung Chee-hwa told the *South China Morning Post*. "Japanese banks' withdrawing from Hong Kong really does not help us at all."

In 1997, Japanese banks were the largest lenders across Asia, with more than \$253 billion in bank loans as of December 1997. Fully 8% of all bank loans in Hong Kong in 1997 came from Japanese banks in search of high returns overseas. As the yen continues to fall, Japanese direct investment into the troubled Asian economies, which is vital to save many firms from bankruptcy at this point, is drying up. Japanese banks are dis-investing across Asia, to shore up their huge, worsening problems at home.

With rising interest rates caused by lack of Japanese bank credit in Hong Kong, that economy, too, is now plunging into recession, further threatening the stock market, the heart of Hong Kong's financial system, and a vital adjunct of China's economic restructuring plans.

"There is obviously pressure for devaluation on the Chinese authorities," said Steve Wright, Cr dit Suisse First Boston's Asia strategist. A devaluation by China would, in turn, put unbearable pressure on Hong Kong to devalue, threatening a panic capital flight by Hong Kong's wealthy investors. "That would be pretty destabilizing," Wright said. "A lot of companies have dollar-denominated debts. It would unsettle the whole region."

G-7 votes with their feet

Against this backdrop, deputy finance ministers of the G-7 nations (the United States, U.K., Canada, Germany, France, Italy, and Japan) held what was billed as an "emergency" meeting on June 9 in Paris to discuss steps to stabilize the yen. Indeed, on the eve of that meeting, Japanese Vice Minister of Finance Koji Tanami announced that the United States would "cooperate" to stop an excessive yen fall. That caused a 24-hour hesitation in the yen's fall.

However, the G-7 Paris talks passed without a word said publicly about the yen, or, for that matter, on the alarming situation in Russia. The yen immediately resumed its fall. French Finance Minister Dominique Strauss-Kahn said on June 11, "There is no decision on concerted action on the yen." He added, "The Japanese situation continues to be worrying."

Yet, many are asking, if the yen fall is threatening to unleash such global horrors at this point, why does the Clinton administration, Japan's most important economic ally, not simply state that it will intervene with the Bank of Japan to stabilize the currency? "At this point the United States can't give ground," S.J. Lewis, a City of London economist familiar with the Japanese problem, told *EIR*. "To intervene now to stop the [fall of the] yen, without any concessions by Japan

to finally deal with their domestic banking crisis and the lack of real economic stimulus, would be to throw good money after bad. It most likely would only make a bad situation worse.”

Indeed, one of the most blunt declarations by BIS manager Crockett, was on Japan. Attacking Japanese governments for “a decade of temporizing,” Crockett urged Tokyo that it was “still not too late to restructure the banking system . . . and above all to stimulate the economy further through permanent tax cuts.” In March, the Japanese Diet (Parliament) passed an unprecedented 30 trillion yen bank-restructuring package, amid great fanfare that it would end the decade-long problem of some \$1 trillion or more in bank bad loans which have choked Japanese growth and are now plunging the world’s second-largest industrial economy into a deflationary depression. To date, little more than 1 trillion yen have been spent. The fund remains almost untapped, with rules for its use not yet defined, even as the Japanese economy contracts.

Unless Japanese banks and the government finally resolve an effective way to remove the albatross of the \$1 trillion of non-performing debt on banks’ books, to allow banks once more to lend and restart the economy, Japan will continue its plunge toward deflationary depression, with soaring unemployment, collapsing production, and record bankruptcies. That, in turn, will threaten the entire global financial system, including the U.S. economy, where Japanese investors hold several hundred billion dollars of U.S. Treasury securities, which they would be forced to quickly liquidate to raise cash at home. This global dimension is the real danger behind the yen’s current plunge.

Documentation

‘The crisis is worse than we thought’

Mexican Finance Minister Angel Gurría was asked about the Asian crisis and Lyndon LaRouche’s policies, by TV journalist Architect Benavides of Channel 12’s broadcast, “Cambios,” in Monterrey, Mexico on June 7:

Benavides: Seeing what is happening in Japan, seeing what has happened with us, and what is happening in the last 48 hours —

Gurría: In Korea, in Indonesia, in Malaysia, etc. —

Benavides: Seeing all of this, we could be witnessing the shattering of the international financial system. And there are some gurus out there, such as Mr. LaRouche and those people —

Gurría: Noooo! Well, the international system is under

enormous pressure, but there is a common denominator: the need, in order to prevent such things from happening in the future, for us to strengthen regulation, strengthen supervision, modernize the system of controls over the banks and the financial system. In fact, there is talk about creating international institutions to support countries. . . .

Far Eastern Economic Review editor Philip Bowring wrote in the International Herald Tribune on June 9:

“This time, Malaysian Prime Minister Mahathir bin Mohamad has it right. Asia (excluding Japan) is being crippled by extraordinarily high interest rates that threaten to turn a necessary short, sharp recession into a depression. Policy must be changed, regardless of the IMF. . . .

“It is impossible to imagine any Western government imposing the kind of monetary policies now being faced in much of Asia. . . . Inflation is nowhere to be found. Deflation is everywhere. Prices of everything except money have collapsed. . . .

“The IMF pretends to be lender of last resort, and dictates policies as if it were. But it has neither resources nor the will to require major shareholders to address the international problems caused by their banks. . . .

“Asian resentment of Western prescriptions will escalate dramatically if output keeps falling. For everyone’s sake, countries should start now to mitigate recession by reinvigorating domestic demand, whatever the views of the IMF or of the fashion houses of finance.”

Aloysio Biondi, in Brazil’s Monitor Mercantil, June 4:

Why is it, asks Biondi, that the Brazilian currency, the real, has not yet fallen through the floor, nor its markets collapsed in a financial crisis, as happened in Asia? “Answer: Because the Brazilian government, since last year, has carried out a gigantic and indecent intervention into the financial markets, using, in an illegal and authoritarian manner, pension funds, the Banco do Brasil, the National Economic Development Bank (BNDS), and ‘friendly bankers.’ ”

Biondi charges that the Central Bank has thrown “billions and billions of dollars and reals” into the markets to cover up problems, only ensuring that they will be much worse when they become uncontrollable, which will happen in the near future.

Ronaldo Sardemberg, Brazilian Secretary of Strategic Affairs for the Presidency, in Folha de São Paulo, June 8:

After visiting Malaysia, Singapore, and Thailand, civilian intelligence chief Sardemberg said: “The crisis is more complicated and more profound than we imagined. The crisis, in addition to being a financial one, is also an economic crisis. . . . The solution to the crisis does not depend only on a correction of financial problems. In Thailand, for example, they closed 60% of the financial institutions, but that did not solve the problem.”

Alan Greenspan, chairman of the U.S. Federal Reserve, June 10 testimony before the Joint Economic Committee of Congress:

“The current economic performance, with its combination of strong growth and low inflation, is as impressive as any I have witnessed in my near half-century of daily observation of the American economy.” U.S. economic growth, he said, is “still enjoying a virtuous cycle.” Greenspan concluded: “Our economy has remained strong this year, despite evidence of substantial drag from Asia, . . . the economy continues to perform more impressively than it has in a very long time.” Regarding Asia, Alan-in-Wonderland admitted that as “the events of the past few weeks have demonstrated, the restoration of normally functioning economies will not necessarily go smoothly.” Still, he chirped, Asia’s problems do “not seem likely to threaten the expansion of this country’s economy.”

Malaysia’s Mahathir slams hedge funds

Malaysian Prime Minister Mahathir bin Mohamad spoke in Tokyo at the Fifth Symposium of the Institute for International Monetary Affairs on June 2. A summary follows.

What is the worth of a nation, if someone can devalue it, and bankrupt it? In a scathing attack on the “analysts” who claim that weak “fundamentals” are the reason for rapid currency movements, Dr. Mahathir posed very directly that it is the speculators and hedge funds that are destroying the economies of Asia. He noted that, even immediately prior to the onset of the attacks on the Asian currencies last summer, international organizations, including the IMF and Michel Camdessus, were praising Malaysia “for our sound economic management, for our superb economic fundamentals. . . . On June 17, 1997, just two weeks before the currency hurricane struck, the IMF gave Malaysia not just a clean bill of health but the IMF in fact praised Malaysia’s economic fundamentals. . . . And the IMF commended Malaysia to investors as an economy that ‘justifies the confidence of the markets.’

“I cite all this in order to address all those extremist ‘market fundamentalists’ who believe that the market is always right and that the reason why so many of us are in desperate straits today is because we mismanaged our economies and because all our ‘fundamentals’ were rotten to the core.”

“The analysts and all those who are obviously cleverer than us simple elected leaders must know that we have had not ten years, but 40 years of economic growth unparalleled in human history. Since some of them are young enough to be our grandchildren, perhaps we should remind them that

many of the things that they complain about and which they say are the reasons why we are in such difficulties today, were things that we ourselves started complaining about when we ourselves were their age. So many of the so-called fundamentals which are now listed as the main causes of the currency and financial turmoil of the last 12 months — corruption, monopoly, crony capitalism, inadequate human resources, very far from perfect banking systems and practices — have always been with us. Yet, we were able to grow faster and longer than anyone before in human history. . . . But the true causes of why our currency plummeted and why we are facing an economic crisis must be sought elsewhere.”

After describing areas in which measures must be taken, Mahathir continued: “At the international level, I believe that the time has come to deal with the entire issue of reform of the international financial system to ensure currency stability and to contain the activities of those who buy and sell money for no other purpose than to make profits.

“Let me say once again that currencies need to be changed if there is going to be international trade. That is why the leaders of the western nations met to draw up the Bretton Woods Agreement, the purpose of which was to agree on a mechanism for determining the value of one currency against another.” But, then, Mahathir said, “some countries in the West decided to devalue their currencies in order to enhance competitiveness,” and quickly “a currency market emerged which took advantage of the mildly unstable exchange rate. . . .

“With the invention of arbitrage and futures trading, the need for exchange rate stability for the purpose of trading gave way to the desire of currency traders to make massive amounts of money in the shortest possible time. An artificial system of devaluation and revaluation of currencies was devised which enabled currencies to be appreciated or depreciated literally within seconds. Thus the Indonesian rupiah was, at one time, devalued by more than 600%, then in the space of a few days recovered by 200%. It is still moving up and down by 100% to 200% in the space of one day or even half a day. . . .

“Can it be that all the assets of that huge country, with 220 million hard-working people, are suddenly worth only one-sixth of its previous value? What, indeed, is the worth of a nation, if suddenly someone can devalue and even bankrupt it? . . .

“All in all, the present system, if there is a system at all, is messy, unreliable, and destructive. Can world trade depend on these shadowy market forces, whose methods are not known to anyone except themselves? But, again, this hedging profits only the hedge funds, adding to the cost of goods and services.

“There is nothing to indicate the need for currency trading other than the vast profits that can be made by currency traders. On the other hand, we now know the extent of the damage to the economies of whole countries and regions that currency trading can inflict.



Dr. Mahathir bin Mohamad in Argentina, 1997.

“The excuse that currency trading provides market forces with the means to discipline governments is totally unacceptable.

“Everything points to the need for an international financial system which will bring about stability of exchange rates among other things. Admittedly we cannot bring back the gold standard or the Bretton Woods system. It would be a sad commentary on the ability of the world’s financial and economic experts if they cannot come up with proposals on a new international financial system. . . .

“Fixed exchange rate is no longer possible or realistic. Obviously the political, economic, and social performance of a country will have an effect on the value of its currency. . . . As for the economy, there are various indices which can be given points, indicating the strength of the economy, and therefore, the currency. It is not beyond the capacity of the world’s great economists to devise a measurement of the economic performance of a country. . . .

“This is, of course, only a suggestion. The financial experts and the economists may laugh, but it will stop the currency traders from laughing all the way to their banks. . . .

“Devaluation or revaluation are not the answers to the world’s economic problem,” said Mahathir, describing the different factors which go into improvements in productivity.

“We are moving inexorably towards globalization. Like the proposal to link human rights, the environment, and labor

practices to trade, globalization, liberalization, and deregulation are ideas which originate in the rich countries, ostensibly in order to enrich the world. But so far the advantages seem to accrue only to the rich. . . .

“Perhaps the peoples in the developing countries should be happy because they will be served by the most efficient and the biggest companies of the world. They will have the choice of three giant banks, four makes of cars, five hotel chains, ten fast food chains, etc. . . .

“In a globalized world, should there be national governments? We have seen that market forces can change governments. What is the need for national elections if the results have to be approved by the market?

“These are some of the international issues which have either to be attended to immediately, or at least debated seriously. Far too often, decisions on these issues are far from democratic, yet the same people insist on democracy for everyone. It is about time that international democracy be recognized as being as important as national democracy.”

The new, ‘ugly’ capitalists

On June 4, Dr. Mahathir addressed the Nihon Keizai Shimbun International Conference on “The Future of Asia in a Globalized and Deregulated World” in Tokyo. A summary follows.

Prime Minister Mahathir demonstrated how a phony concern for “human rights” was used to justify interference in the economies of the industrializing nations, which went along with attacks by speculators and hedge funds, to allow foreign banks and corporations to take over those economies.

Is it not strange, he asked, that “in a world which talks incessantly about the freedom of speech, about human rights, millions of people being made jobless and destitute does not arouse the sympathy of the exponents of human rights. Their response this time is simply to point at the governments of these countries and accuse them of a variety of social crimes. That for 40 years these self-same governments had developed their countries and created millions of jobs for their people was dismissed as the ill-gotten gains of their corruption.”

International agencies then demand “reforms,” such as an increase in interest rates, a credit squeeze, an tax increase, that “all subsidies and monopolies must be withdrawn and the government should not control exports.”

“Finally, the countries receiving the IMF’s aid must open up their economies, so that foreign companies could operate without any restrictions on ownership or areas of economic activity.” When these countries are under stress because of the devaluation of their currencies and collapse of share prices, local companies and banks are attractive for takeovers by foreign companies. These countries are then told that the takeover of the economy by foreign companies would result in economic recovery.

Mahathir talked about how, in “the heyday of blatant capitalism,” exploitation of the poorest workers was considered

as a matter of right. In response to Communist revolutions and violent takeovers of governments, “the Western capitalists decided to show a friendlier face to their workers. The rights of the workers to form unions, to have higher wages and bonuses, to shorter working hours and holidays, to good housing and medical treatment were recognized and granted. . . .

“The term capitalism was gradually displaced by the free market. . . . The ugly capitalist image of private corporations was replaced by a much more friendly, professionally managed public listed companies.”

With the end of Communism, “the concept of the nation-states and their independence had to be debunked. Non-interference in the internal affairs of nations must give way to the right of the powerful nations to intervene in order to ensure that the right things are done. Even democracy has to be sacrificed in favor of market forces in determining policies and government leadership.

“President Carter was the first to claim the right to intervene in any country where human rights are alleged to have been violated. This was followed by the attempt to use the GATT [General Agreement on Trade and Tariffs] and the WTO [World Trade Organization] to link trade with human rights records, workers’ rights (specifically low wages in countries competing with the developed countries), the environment, etc.

“The targets of these sudden concerns for the people’s well-being seemed to be those developing countries which clawed their way into becoming industrialized nations, producing goods which compete successfully with those of developed countries. The results of linking trade with human rights, etc., would be to make the cost of production of these countries increase so much, that they would not be able to compete at all or they may not be able to export their products at all. . . .

“Ugly capitalism seems to be at the back of this humanitarian concern. It is not humane at all, as the consequence of this demand is to make the peoples of these countries poorer, not richer. . . .

“Paralleled with the propaganda on deregulation and globalization came exposures of the misdeeds, the corruption and the cronyism of the leaders of countries, which, incidentally, had managed to industrialize themselves and produce goods to compete with those from industrialized countries. Inundated with these propaganda materials from the capitalist-controlled world press, the peoples of these countries soon turned against their governments. They joined the chorus not only to demand the overthrow of their governments, but to open up their countries to foreign exploitation. . . .

“It has been pointed out that currency traders can devalue any nation’s currency at will. Currency trading is done not by hedge funds alone, but also by the big banks. One of these banks is capitalized at over \$600 billion. It is believable that between these banks and the currency traders they have almost \$30 trillion. . . .

“With trillions at their disposal they [the new capitalists] have become a force that no government of developing countries can go against. Control of the media enables them to shape public opinion, censor criticism, and generally promote the legitimacy and the wholesomeness of their concept of the new world order. If they say globalism is good, then the whole apparatus will say so and no one will be allowed to say otherwise.”

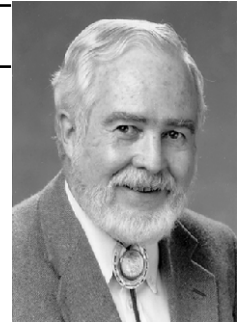
Mahathir then summarized what had been broadcast by the wires the previous week: That the economies of the Asian countries will be dominated and run by huge foreign corporations; that governments will have to submit to this because they are up against forces which they cannot defeat. “But the people will show their resentment against those outsiders who will lord it over them once again. Bitter over the takeover of their national corporations, they will show their feelings in many ways. Sooner rather than later, they will think of regaining control over their economies. They will regard this as a new war of liberation. Even if they want to avoid violence, violence must come, as the new capitalists disregard the signs. . . . There will be a kind of guerrilla war which will not be good for anyone.”

Mahathir concluded: “Maybe this will not be the future of Asia. . . . Maybe the healthy economic competition between Asia, Europe, and America will be restored. But the new capitalists would not want to miss the opportunity to dominate the world and make lots of money in the process. Only if their own countries restrain them, will the future of the world of which Asia is a part be peaceful and prosperous.”

Coming soon in EIR

Lyndon H. LaRouche, Jr. addresses the issue of “The Substance of Morality,” in an article which will be published in a forthcoming issue. In introducing this major theoretical work, LaRouche identifies a crucial paradox: Science and technological progress are indispensable for the continued progress of our species; “however, when and whether progress, or even retrogression occurs, is never automatic; the actual outcome is a result of what we term ‘cultural factors,’ as much as impulses attributable to progress in discovery of higher physical principles as such.”

Faced with the current global financial and monetary crisis, LaRouche writes, “sane national and related policies depend upon discovering and adopting those principles of culture to which we must turn, if we are to avert the seemingly inevitable demographic and per-capita collapse now gripping this planetary civilization.”



Putting El Niño into perspective

Dr. O'Brien is a meteorologist and physical oceanographer who directs the Center for Ocean-Atmospheric Prediction Studies (COAPS) at Florida State University in Tallahassee. He was interviewed in May by Marjorie Mazel Hecht.

EIR: We've heard a lot about El Niño this year, in the United States, where just about every occurrence of bad weather is attributed to El Niño, and in the tropical areas, where El Niño-related droughts and floods have been wreaking havoc. How would you describe the El Niño phenomenon in scientific terms? What is going on?

In particular, I'd like you to comment on the report in *EIR* by one of your colleagues, oceanographer Robert Stevenson ["El Niño Does What? Surely You Jest!" *EIR*, Feb. 27, 1998], that the 1997 warm water temperatures in the eastern tropical Pacific were diminishing by early 1998, and therefore, that the U.S. storms this winter were not attributable to El Niño.

O'Brien: Well, before I go into what is El Niño, I think that the Stevenson report was a timing problem. In other words, El Niño had started to decrease, but then it went back up again. Currently, El Niño is dying fast.

But let's start off with: What's El Niño?

Normally, off the coast of Ecuador, along the equator, in the tropical Pacific Ocean south of the United States, we expect to see, for example, in wintertime, surface water temperatures around 65 to 75° Fahrenheit. These are created by the large trade winds systems that are very familiar to everybody, the Northeast Trades in the Northern Hemisphere, and similar Southeast Trades in the Southern Hemisphere, which blow and create kind of an upwelling of cold water along the equator, from Ecuador at 80 degrees west, all the way over to the dateline, which is about in the middle of the Pacific Ocean.

From time to time, these trade winds decrease, and upwelling does not occur, and we start to see warm anomalies in the Eastern Tropical Pacific. (By anomalies, I mean the difference from the normal expected meteorological variable at that time of the year.)

Now, if we look at a history record going back the last 50 years or so, we find that every three to eight years, there will be a warmer-than-normal sea surface temperature—we call this El Niño. And in between, we have a colder-than-normal sea surface temperature, and it is generally called La Niña.

But I don't like that name, so I call it El Viejo, which means the old man—Old Man Winter.

Now, what is this shifting? We can think about the Pacific Ocean as a big pool of water which is sloshing back and forth. In normal times, there's a big warm pool of water in the western Pacific. And, when there is an El Niño, ocean dynamics occur which deepen the thermocline mixed layer in the Eastern Tropical Pacific, and allow it to acquire heat, because there is no upwelling of the cold water. And, in other cases, it's colder than normal when the winds blow much stronger, and bring up the cold water.

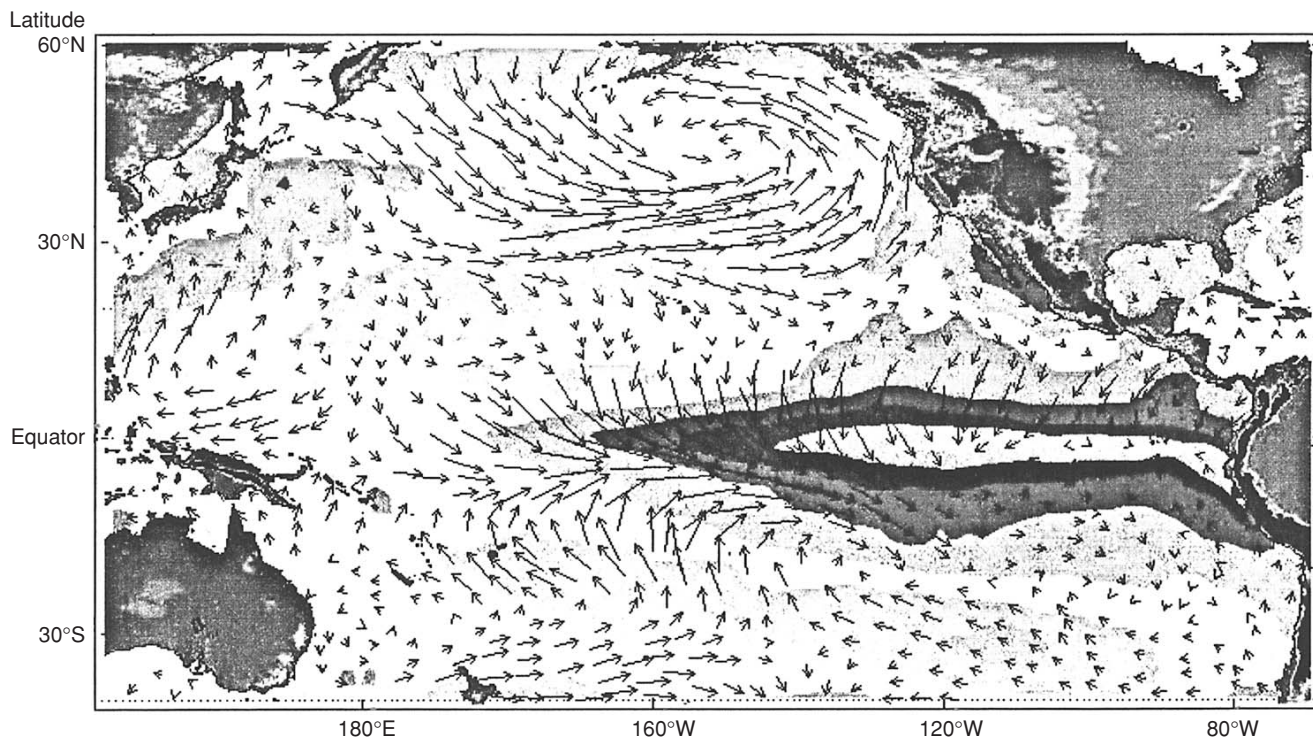
In order to understand how this affects how much rain falls, we need to look at the situation from another standpoint. Think about the Sun shining on the planet. Because of the shape of the planet, the Earth gets more heat in the tropics than at high latitudes. And, in particular, if we look at the planet from space, we'll see that in the western Pacific, west of the dateline, there's a big pool of warm water—called the warm pool—in which the temperatures are always up around 85 to 90°F. Many places on the Earth have water that warm in their summertime, but this warm pool in the western Pacific is there all the time. And from this warm pool, there is lots of convection, lots of typhoons—

EIR: How does the convection work?

O'Brien: This convection process is how the planet gets the heat from the ocean surface, up into the upper troposphere. Then this heat streams poleward in the Northern and Southern Hemispheres. And, because of the rotation of the Earth, this heat and water—mostly just water vapor that's up there—also goes eastward.

In normal times, this is a huge pumping of heat. And in the winter hemisphere—let's take the Northern Hemisphere, for example, in winter—it's the headwaters, or origin, of the 200-millibar tropical jet stream. This jet stream meanders around through the Pacific, but by the time it actually reaches the North American coast, it's not too strong. Occasionally, it will give rain in Southern California, or in Oregon, but it's not too strong.

Now, when El Niño happens, with all the shifting and warm water, then water warmer than 28° centigrade, or around 90°F, shifts east of the dateline. So now, instead of having all this convection occurring in the western Pacific, it



Surface wind anomalies in the Pacific Ocean on Dec. 15, 1982. Australia is at lower left; North America at upper right. The large shaded area near the equator indicates temperatures 6°F or warmer than usual.

occurs in the *central* Pacific. During an El Niño winter—our winter, for example—or in the previous summer, in the Southern Hemisphere’s winter, then there is all this moisture, or heat, coming from the central Pacific. And when this 200-millibar jet stream hits the United States, it’s quite strong. It comes in across Southern California, and it tends to go straight across the country.

During an El Niño, in the winter in the United States, our weather is dominated by the southern jet stream, and not the jet streams that come from Canada. Therefore, this past winter, Chicago and the mid-Plains were quite warm, and the southern part of the United States, from California all the way across to the Carolinas, was more rainy from all this water that has come from the Pacific. It also tends to be slightly cooler than normal, just because we have cloudiness.

Here in Florida, for example, this last winter, people said, “We had a warm winter,” because they didn’t get any real cold air from Canada. But, in actuality, when we checked it out, it actually was a cooler winter, because of all the rain.

So, this is El Niño.

When we have El Viejo, or the cold water near the Galapagos Islands, then the warm pool in the Pacific is pushed back into Indonesia, and the 200-millibar jet stream is farther away. It becomes a real wimp by the time it reaches the United States, and it doesn’t really mean anything. So, the United States gets dominated by the polar jet stream: There are huge

amounts of cold air plummeting down from Canada, and there is an entirely different weather pattern.

Now, let’s look at what El Niño does in the tropics. Let’s look first at the countries in Latin America. On the west coast of Latin America, that is, Colombia, Ecuador, Peru, and Chile, these are mostly rather desert countries—except for part of Colombia, because of its mountains. But El Niño changes the circulation, so that these countries end up getting rain. So, places in Peru, and in Chile, get lots and lots of rain where they’re not used to it.

On the other side of South America, in Brazil, they tend to get droughts in northeast Brazil, and down in south Brazil—it’s a big country—near Argentina, they get lots of extra rain.

If we go to the other side of the Pacific—because, in El Niño, the convection was shifted from north of Australia, to out in the middle of the ocean—the northern part of Australia, in Queensland, tends to have droughts. Indonesia, the Philippines, and South China also have droughts. This happens with the shift of the origin of the jet stream.

In the opposite case, with El Viejo, there is cold water, which pushes the warm pool over toward the west. Then Australia gets lots more rain, Indonesia goes back to being a tropical rain forest, and Taiwan and China and the Philippines all have a nice amount of water.

There are also teleconnections. This word refers to seeing something happening in one part of the planet, which seems



Scientists working on a Tropical Atmosphere Ocean (TAO) Array mooring. There are 65 such buoys along the equator, from the Galapagos Islands to New Guinea. They measure wind and water temperatures, rain, and solar radiation, and transmit the data to the United States via satellite.

to have consequences a long, long way away. There seem to be very strong teleconnections in southern Africa, which I won't try to explain now, because I don't really understand them. Historically, people have tried to link the rainfall in the Indian monsoon to El Niño, but this theory never holds up when you study it carefully. There's a relationship there, but it's kind of flaky.

EIR: So, broadly, these shifts are referred to as oscillations.

O'Brien: Yes. One of the reasons it's called a southern oscillation, is that historically, people were measuring the sea-level pressure between Tahiti and Darwin, Australia, which, basically, measures the strength of the Southeast Tradewinds. So, when the Southeast Trades are strong, the difference between Tahiti and Darwin would be very positive, and when it's weak, the difference would be negative. This has been the "landlubber," or atmospheric measure of what's happening. In the modern day, we've switched over to looking at the sea surface temperatures along the equator, to just the west of the Galapagos.

This southern oscillation has been studied by climatologists for a long time. Now it's called the ENSO, which stands for the El Niño Southern Oscillation. And the reason it is called this, the most important reason, is that this is really a phenomenon driven by the ocean. The ocean has certain modes of oscillation. But, under the right circumstances, the

atmosphere amplifies these oscillations, and they grow to be this big thing which now everybody knows—El Niño.

EIR: How does the southern oscillation come to affect the United States?

O'Brien: To come back to the United States, which is much more interesting to me: Because of the weakening of the trade winds, El Niño affects the low-level winds in the Atlantic. Therefore, you don't have a lot of hurricanes in the Atlantic, because the thunderstorms get knocked over by the winds in the high atmosphere, and don't form into hurricanes. For example, the probability of having two or more hurricanes hit the United States in the hurricane season prior to an El Niño winter, is about 20%. But if you have the El Viejo, the probability of two or more hurricanes hitting the United States goes up to 75%: This is an incredible difference.

We at COAPS have done some interesting studies on tornadoes in the United States. We found that there have been almost no tornadoes in the traditional Tornado Alley—as highlighted

by the movie "Twister." So, from Dallas up through Oklahoma and Kansas and Illinois, it's been very quiet. This is a direct result of the fact that the southern 200-millibar jet stream came across the southern United States, and doesn't allow the moisture from the Gulf of Mexico to get up into Oklahoma. So, no tornadoes.

On the other hand, in El Viejo, the big north-south meandering jet streams allow lots of moisture to be pumped into the Tennessee and Ohio valleys, and they get a lot more tornadoes.

This year's El Niño started very early, and all El Niños tend to have two peaks. They tend to peak, die off, and peak again. So, this one peaked some time last summer, for the first time. This could have prompted some people to think it was going to die earlier, and to think that the wintertime storms in California, and the tornadoes in Florida and Georgia, were not due to El Niño.

But, unfortunately, the thing came back again, and as of right now, there are still 3°F warm anomalies sitting in the tropical Pacific.

EIR: Can you elaborate on why El Niño is associated with such different weather extremes, droughts and floods?

O'Brien: Well, I explained this with the 200-millibar jet stream. Let me put another spin on this, namely, that the Pacific Ocean is way out there—nobody lives out there.

There are currently scientists publishing papers which are saying that El Niño is happening more frequently, and that this is a definite fingerprint, or sign of global warming. I don't believe that at all.

EIR: And there's a lot of it.

O'Brien: And there's a lot of it. It's big, it's huge. We didn't have many scientific expeditions out there, and it's only really since the era of satellites, that we're beginning to really see the place, and see phenomena, and then encourage the governments to support further research.

We have this marvelous array of buoys, called the TOGA-TAO Array. That's about 65 buoys stretched, plus or minus a couple of degrees from the equator, from the Galapagos all the way to New Guinea, which take ocean and atmospheric data and send it back through satellites to the United States, so we can see what's happening.

But, 20 years ago, let's say the winter of 1966 or 1967, or the winter of 1957-58, you could have had just about the same kind of mess, and nobody could explain it. If we go back earlier than that, they would have blamed it on Russian atomic bomb tests. I remember, when I was a kid, they blamed all the strange weather on Russian atomic bombs, or American atomic bombs, too.

EIR: Yes, including the drop in SAT scores —

O'Brien: So, the real breakthrough that's happening now, is that we are able to identify the morphology, or life-cycle of ENSO, and we are able to measure it, and to anticipate what it's doing. This is a major technical breakthrough. The United States has tried to forecast the winter and the summer conditions in precipitation and temperature, since around 1950. And we've been singularly unsuccessful.

In the April 24 issue of *Science*, there is an article pointing out that the new weather models had some success in predicting El Niño this year. I think the author overplays it a little bit, although I think there has been some success. But certainly, even without the computer models, if we have all these observations in the middle of the Pacific, it's possible for us to look at what's going on out there, and, based on all our other studies, to anticipate what's happening.

This is very valuable information for many sectors of our economy. Right now, for example, insurance companies are actually providing policies that are weather-related. People in California, telecommunications people, telephone companies in California which are worried about El Niño's bringing so much rain that all the telephone lines are going to slide into the ocean, along with the houses on the hills above them, can actually buy insurance based on these kind of forecasts.

In the Northeast, people who supply natural gas or heating oil for homes, can actually take out an insurance policy that will cover whether or not they have to pay more on the spot market if they have not bought up enough fuel for the demand. One of my students works for a private company in Seattle, and in the El Viejo winter of 1995-96, his company advised their clients that it was going to be that kind of winter. It gets quite rainy, snowy, and cold in that area, and their clients saved lots of money by buying up the extra energy before anybody knew what was happening.

EIR: I think it would be particularly useful for farmers to have an idea of the weather in advance.

O'Brien: Also directly attributable to the warm winter, I can still buy gasoline for 97¢ a gallon here. There are other economic factors, of course. But the fact that this winter, all across the Midwest, and from Chicago to Boston, the typical average monthly temperatures were 3 to 7°C, almost 10°F, above normal. This meant that there were tremendous energy savings.

So, we have this new phenomenon — El Niño. We understand it, we have some ability to forecast it. But we still have a lot to learn.

EIR: If you look at the issue historically, there have been anecdotal accounts of El Niños going back hundreds of years.

O'Brien: The first mention of El Niño, it turns out, is in Lima, Peru, where it never rains unless there is an El Niño. The first priests came there in 1470, from Europe, and there are two things of note: The European priests never went home, and it only rains when there's El Niño. So, by going back and looking at the diaries of the priests back to 1500, we have actually gotten an excellent record of El Niños back to 1500.

Also, scientists have looked at corals in the Galapagos. The warm water near the Galapagos Islands tends to keep the coral from growing, so it's like tree rings as a record of the weather. By looking at the corals, scientists have been able to track El Niños back even farther than 1500.

The coral growths don't track the El Viejos, the big ones, but they do track the warm events.

EIR: I think it's extremely useful to have the historical perspective, because there's a tendency, as you well know, to attribute El Niño's weather extremes to man-made global warming.

O'Brien: Well, let me talk about that for a minute. There are currently scientists publishing papers which are saying that El Niño is happening more frequently, and that this is a definite fingerprint, or sign of global warming. I don't believe that at all.

We have a paper which we've submitted to *Nature*, which shows that the same kind of more frequent El Niños which we've had since 1990, occurred at the end of the last century, between 1885 and 1895. So, if you look at a long-enough record, you will find out that the same thing happened before.

I will say, however, that although I'm not a proponent of global warming—and you can print that—I don't think that the extra-radiatively active gas—that's a very scary word for everybody—or the CO₂, or methane extra, will manifest itself in necessarily warming us all up; it will manifest itself in some other way. But, that's another article.

The models do show, however, that if we go into that kind of warming scenario, then we will have a more El Niño-type warm ocean. Now, the good news is—that that is tremendously good news! People say it's bad news, but as I said, El Niños mean fewer hurricanes. Hurricane Andrew caused \$30 billion of damage, and they're saying that if the next one comes in 100 miles north of Andrew, it would cost \$60 billion. And, if we had more El Niños, we'd have nice warm winters like the one we had, and we will have many fewer hurricanes.

So, if this is the case, we should just get a couple of rows of people to move away from the beach in California, and maybe in Florida they can have better rules about living in aluminum boxes.

Why make El Niño into such a bad thing, when it's actually probably the biggest economic boost that's going on right now in the United States? There are many more positive sides to it than that.

EIR: There is also the broader issue of getting people to understand that man's industrial society is not what creates, or changes, the climate. People's thinking on this has really been skewed.

O'Brien: . . . You know, we have a web site with a tremendous amount of information on El Niño and related topics. The address is www.coaps.fsu.edu

This web site was created because we were getting about one e-mail a week from a highschool or junior highschool student, saying: "I've got to write about El Niño, tell me about it." So, in order to help those kids, we put a tremendous amount of bibliographic information on the web site. Before El Niño last year, late 1996, we were getting about 3,000 hits a day, and then, by last summer, it went up to about 40,000 hits a day. I think it's less than that now, but we are linked to other web-based publications.

LAROCHE ON THE NEW BRETTON WOODS

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Trade and the dollar plunge

Political earthquakes are under way, as the "Asian crisis" finally hits Australia.

For months, Prime Minister John Howard and Treasurer Peter Costello have bragged that their austerity policies have erected a "firewall" between Australia and its Asian neighbors. In early June, Costello even hyperventilated that Australia had "one of the fastest growing economies in the world." However, beginning on June 4 and continuing through June 10, the Australian dollar slid to 58.38 U.S. cents, its second-lowest rate ever, down over 20% since January, with worse expected soon. Meanwhile, panic is beginning to set in among the ranks of Howard's Liberal-National Party coalition government, because of fear that the "Asian contagion" may doom them in the next federal election, expected in July or August, of which a foretaste can be expected in the hotly contested Queensland state election on June 13.

The immediate trigger for the attack against the Australian dollar was the release of the second-worst current account deficit figures ever (AUS \$7.5 billion), as Australia's foreign trade started to collapse. Some 71% of that trade is with Asia, led by Japan, South Korea, and New Zealand, its three largest export markets, respectively, whose economies are all plummeting. Trade with Japan, for instance, fell \$500 million (10%) in the first quarter, and exports to China, another key market, fell \$221 million (21%).

But the Asian trade collapse is only part of the story. Ever since the Labor Party under Bob Hawke and Paul Keating came to power in 1983, it, and its nominal Liberal-National Party opposition have both applied the rabid free trade policies of the British

Crown's Mont Pelerin Society, known downunder as "economic rationalism." These policies have savaged the agricultural and manufacturing sectors, and caused a blow-out in the nation's foreign debt, which hit its highest level in history, a staggering \$196 billion, at the end of December (March figures are not yet available). This is by far the highest foreign debt per capita of any country in the world.

Compare Australia's total debt, for instance, with its population of 18 million, with the population and debt of some of the world's other major debtors: Brazil, 165 million people, \$214 billion; Mexico, 100 million people, \$200 billion; and Russia, 147 million people, \$147 billion. (Australian governments of both parties have tried to downplay the debt by counting only "net foreign debt"—an accounting procedure used nowhere else in the world—which stands at "only" \$134 billion.)

As the dollar plunged, Costello hustled off to New York, to beg George Soros to halt the hedge funds' attack on the Australian dollar, which is being spearheaded by Soros's \$20 billion Quantum Fund. Costello even promised that he would allow mergers among Australia's Big Four banks, if he and his coalition partners win office again, if Soros would just call off the dogs.

Costello, like Howard, has been closely identified with Mont Pelerinite "economic rationalism," and it is that which is on trial in the next election. The most visible spokesman, at least in the Australian media, for dumping these policies and returning to the economic nationalist policies of protec-

tionism, national banking, etc. which built Australia in the first place, is Pauline Hanson, an Independent federal MP from Queensland. With her call to dump economic rationalism and the racist policy of "Aboriginal land rights," which has already claimed more than 50% of the country, Hanson has struck a deep chord, in rural Australia in particular. Polls show her One Nation Party possibly winning several seats in the state elections in Queensland on June 13.

Fuelled by her voter support, a fierce debate about Hanson's economic policies has now broken out in the nation's media. The latest polls show her support nationally at 7%, remarkable for an independent, and enough to win a Senate seat in the federal election.

While Hanson is the most visible opponent of economic rationalism, another, more articulate force has also been campaigning for a return to national banking and protectionism (which, given the present world financial disintegration, can only work under a global financial reorganization): Lyndon LaRouche's collaborators in the Citizens Electoral Council (CEC), who are running 32 candidates for the federal Senate and House of Representatives. Though largely blacked out by the major media, the CEC candidates have distributed hundreds of thousands of pamphlets emphasizing LaRouche's record as the only one to have foreseen the present crisis, and the necessity for Australia to fight for his New Bretton Woods world financial reorganization. As former Governor General Bill Hayden told an associate at the constitutional convention several months ago, the "real danger" is not so much Hanson, but that a "highly intellectual force" might emerge to give leadership to the extraordinary discontent currently rallied under her banner.

The rupee continues to lose ground

Foreign sanctions, economic indecisiveness, and turbulence in the Asian markets are helping to weaken the Indian currency.

On June 10, the Indian rupee reached a new low when it depreciated by over 1% in one day to Rs 42.24 to the dollar. From the flutter it caused, it is expected that the currency will lose more in the coming days. No one here, however, is talking about a free fall of the rupee.

Since the beginning of May, the rupee has lost about 13.9% against the U.S. dollar, and about as much against the major West European currencies, but gained slightly against the Japanese yen. The steady erosion of the rupee's value throughout May did not get much response from the Bharatiya Janata Party-led government in New Delhi. But the sharp June 9 depreciation seems to have woken up financial policymakers and market watchers. Securities and Exchange Board of India (SEBI) chairman D.R. Mehta held a series of meetings with the Foreign Institutional Investors (FIIs) to probe their nervous mood.

Typically, the Finance Ministry brass have put up a brave front, ostensibly to allay fears in the short term. Finance Secretary Montek Singh Ahluwalia said, "The Reserve Bank [India's central bank] has all the resources to prevent any speculative upsurge in the foreign exchange market." He also alluded to "a great deal of foreign exchange volatility in the international market," and urged all not to "focus too much on the rupee."

Finance Minister Yashwant Sinha, who is keenly watching the impact of his widely disliked annual budget, presented on June 1, asserted that the government was in a position to face "any speculative challenge" on the rupee

following the dollar hardening against the yen. Sinha expressed confidence, saying, "A stable market is more preferable and important from our scheme of things than a stable rupee." It is surmised that he would like to see the rupee fall a little further to meet "market demand" and, perhaps, to encourage exports.

The rupee came under pressure due to heavy selling on June 9 and 10 by the FIIs, which were liquidating their investments, mopping up dollars from the market and creating a surfeit of rupees. Cumulative net investment by FIIs had declined from \$9.03 billion at the end of May to \$8.9 billion by June 5. The sell-off and falling rupee have already affected the stock market, sending the 30-share Sensitive Index down 156 points on June 10. Although it is not fully discernible why the FIIs are selling fast and furiously, a few good reasons have been presented by various market analysts.

The 1998-99 budget of Finance Minister Yashwant Sinha has been identified as the main culprit. One market analyst pointed out that the 8% hike in import duties and the absence of any new incentives to encourage foreign direct investment have been interpreted by the FIIs to mean that under the present government, economic liberalization has been given a back seat.

According to a news report, a source at a leading investment bank said that the budget has led the country to a lower growth rate, and that sentiment has turned negative because "one is staring at a 10% inflation rate, alongside a depreciating rupee and later higher interest rate."

Failure to move a sluggish economy, which, at the same time, created fear among the FIIs of a higher inflation rate, was enough to discourage the investors, who are always looking for greener pastures. With the primary market showing no signs of revival and no expenditure clearances for large infrastructure projects in power, road construction, railroad, mining, etc., in sight, it is argued in some quarters that the FIIs will continue to unload their assets in the Indian bourses, and that this would lead to the decline of India's foreign exchange reserves in the short run.

Perhaps Finance Minister Sinha should not be the only one to blame for the depreciating rupee. India's nuclear tests in mid-May invited sanctions from the United States, India's leading trade partner, and Japan. While the direct impact of these sanctions may be bearable, some indirect consequences are bound to be uncomfortable, unless New Delhi deals with them adroitly. For instance, the World Bank has already postponed consideration of loans totalling almost \$1 billion. The European Union has imposed anti-dumping duties on Indian exports of antibiotics and steel bars.

While it is certain that the country's minuscule foreign trade—India's total trade is close to only \$50 billion—does not make or break the economy, India has a foreign debt of about \$90 billion, and the continuing depreciation of the rupee boosts the debt burden daily. In addition, of course, India is steadily becoming a nation with perpetual trade imbalances. To pay the foreign debt and meet the trade imbalances caused by depressed exports and growing imports, India will require more and more foreign exchange. The Finance Ministry may find no cause to worry now, but Sinha's budget showed no signs of turning back the tide.

Accelerate the start of the maglev era

The high-speed train disaster at Eschede puts a spotlight on the flaws of outdated rail technologies.

It happened shortly before 11 a.m. on June 3: A German high-speed train of the ICE (Inter-City Express) class, going at 200 kilometers per hour, was derailed at the town of Eschede. Some cars hit the pillars of a bridge and caused it to collapse; the last five cars ran into the debris of the bridge, and were compressed into one another. Ninety passengers died at the scene, and five more died later. More than 100 people were injured, many of them seriously. ICE 884, coming from Munich, had crashed less than 30 minutes away from Hamburg, the final destination of its six-hour trip.

How could it happen? The ICE, since it was introduced in the spring of 1991, had never had any serious accident, and was considered the safest train of all. Since 1991, the ICE had carried more than 100 million passengers; it had developed into the flagship of Germany's modern rail fleet, accounting for 30% of the annual turnover of Deutsche Bahn, the state-owned railway company. And, another question: If it happened once, could it happen again?

As for the causes of the crash, a thorough investigation turned up part of a steel wheel, apparently belonging to one of the wrecked cars. It was found nearly six kilometers away from the crash site, where the tracks and concrete ties also showed signs of damage.

The investigative teams also identified a switch, 300 meters away from the damaged bridge, as the final cause of the derailment: The damaged wheel must have gotten stuck in the switch and pushed the car off the

track. It must have been the first car, as the outer casing of a wheel on that car had been cut through, so that the wheel would not stay on track.

The locomotive suffered almost no damage, and the train engineer suffered no injuries himself, except a severe state of shock. He had not been able to notice the damaged wheel: The ICE has a sophisticated electronic sensing system to detect all kinds of malfunctions—but none for the wheels.

Learning about this safety gap through the media, the German public has been very angry at the railway authorities. It also turns out that one year after its introduction, the ICE was equipped with new wheels, as the old, solid ones were considered “too noisy.” The new wheels consisted of the basic wheel with an extra, outer casing, which rested on a hard, rubber ring, separating it from the wheel proper. This reduced the travel noise significantly, and made riding an ICE train more comfortable.

But the money to install an electronic sensing system to reveal fissures in the steel or rubber parts of the wheels, was not spent, probably for budget reasons. And, in 1992, when the new wheels were mounted, Deutsche Bahn also closed down a maintenance center in Hamburg, which was equipped with ultrasound devices that had provided a modern way of checking train parts for material fatigue. Strangely enough, a new maintenance center, operating in Munich, used only primitive manual and visual checks, with workers knocking on the wheels, using a simple flash-

light to spot cracks or other signs of material fatigue on the wheels.

This primitive method worked until the morning of June 3: The last safety checks were carried out on ICE 884, which left Munich Central at 5:35 a.m.

The national outcry about these flaws in the safety system compelled the railway management to decree immediate ultrasound checks of all ICE trains that have these 1992 wheels. And, a broad debate has begun about whether budget cuts can still be allowed, after this tragedy at Eschede.

It is a necessary, long overdue debate, but unfortunately, it is a debate about an old technology. Modern as these ICE trains look, their basic technology is the same rail-wheel system that was used at the beginning of the railway era, 150 years ago. The introduction of magnetically levitated (maglev) trains, a technological jump into a new era, has been overdue for 20 years.

The Transrapid maglev train, the bottom of which “embraces” the track so that both parts form the engine, cannot derail. Any malfunction of this integrated system will immediately bring a Transrapid train to a halt, but it would stay on track. Eschede-type crashes could never occur with a maglev train.

Looking back at the 1980s, when the administrative decisions were made to build new trains for the 1990s, it was a big mistake not to introduce the maglev technology, which already existed at that time. Instead, the government and the railway managers opted for the ICE trains, as the allegedly “cheaper” solution, because maglev trains would have needed entirely new tracks. It seemed easier to start the ICE era in 1991 on existing old tracks, slowly building new ICE tracks, one after another, over the next 20 years.

Business Briefs

Health

East Europe leads spread of drug-resistant TB

The emergence of strains of tuberculosis which are resistant to several antibiotics, is continuing worldwide, with the highest incidence of multi-drug-resistant TB found in Russia and the former Soviet states.

A study sponsored by the World Health Organization, published in the *New England Journal of Medicine*, tested TB samples in 35 countries. Rates of resistance to more than one of the four front-line antibiotics were found to be as high as 14.4% in Latvia and 10.2% in Estonia. The Russian figure was 4%, but this is a low estimate, because there were few samples from the prison population; it is estimated that at least 50% of inmates are infected with TB.

Other countries found to have high rates of multi-drug resistance included Thailand, the Dominican Republic, and Argentina. The United States figure was 1.6%, out of 13,500 samples tested.

Brazil

Severe lack of food threatens northeast

The northeastern region of Brazil, one of the poorest regions in the country, has been hit with one of the worst regional droughts in the last 15 years, according to a special news alert issued by the UN Food and Agriculture Organization on June 1. The prolonged drought stretches across 10 states, severely affecting crop production in the area and threatening the population's food supply. Almost 10 million people do not have enough food to eat, and about 4.8 million, according to the government, are at "immediate risk of starvation."

The government's regional development agency has issued a report which describes the situation as critical for the entire region, and dry conditions are forecast to continue until December, with the possibility that they might extend into March 1999, overlapping part of the next rainy season.

Planting has been reduced to 60-90% of projections. In a normal year, total grain production in the region is about 4.5 million tons, but current indications are that this year's output is unlikely to exceed 50% of normal production.

Brazil is now the world's second-largest food importer. Aloysio Biondi, in a column in *Monitor Mercantil* on June 3, attacked President Fernando Henrique Cardoso's embrace of globalization for destroying agricultural production in a country which has the largest unexplored arable land area in the world. At the end of the 1980s, Brazil was self-sufficient in wheat, rice, and cotton production; but after the 1997-98 harvest, it has become the world's second-largest importer of wheat, the third-largest importer of cotton, and the third-largest importer of rice. "Without [decent] prices, without credit, crushed by imports, national agriculture has lost out to 30% of its profits in the last few years," Biondi said.

Transportation

China's land-sea artery will link north, south

China is planning to construct a new land-sea transport corridor that will link northeastern and southern China, the *China Daily* reported on May 29. The new 2,200 kilometer rail line will use some existing rail routes, and will be the first to use a rail ferry, to cross the Bohai Sea from Dalian to Yantai on Shandong peninsula. It will cut the travel distance of the current route by up to 1,000 km. The project will cost 3 billion yuan (\$360 million), and take three years to complete. In addition, a rail ferry will be built at Jiangyin, to carry trains across the Yangtze River. The rail line will also cross the Euro-Asian Continental Bridge.

The proposed artery will begin in Harbin, in northeast Heilongjiang province. New north-south rail links will be built in eastern Jiangsu province, to complete the artery to Changxing, in Zhejiang province. In addition to creating rail lines in southern Shandong and eastern Jiangsu for the first time, the project will also enhance port development in China.

Overall, China will invest 45 billion yuan (\$5.7 billion) in rail development this year, Railway Minister Fu Zhihuan said on May 29 in Beijing. Originally, the government had planned to invest 35 billion yuan this year. The increased spending is part of the policy of Prime Minister Zhu Rongji to ensure that China's economic growth rate continues at 8%. Fu Zhihuan said that as much as 350 billion yuan would be invested in China's rail network over the next five years, "the largest in the country's rail history." Some 250 billion yuan will go into construction and electrification of rail lines, and 100 billion into maintenance and repairs. Funds are to be raised from China's policy banks, the state rail construction fund, and overseas capital markets.

China has spent 150 billion yuan on the rail network in the past five years.

Fu Zhihuan said that the ministry lacked experience in "build-operate-transfer" operations, indicating that China's rail development is unlikely to be opened much to foreign investment at this time.

In addition, the railways will undergo a restructuring, which will end their overall accumulated losses of 16 billion yuan, by 2000. As many as 850,000 workers will become redundant by 2000. The restructuring also includes separating rail operations from construction, logistics and support, and equipment manufacturing.

Eurasia

Financial turmoil hurts Land-Bridge project

The financial crisis in Asia is taking its toll on the development of the Euro-Asian Continental Bridge, part of the overall proposed Eurasian Land-Bridge project, the *China Daily* reported on May 31.

The vast majority (97%) of the cargo being sent from east to west on the rail bridge, is machinery and electronic products manufactured in South Korea, and 98% of the goods going to the east, are raw materials from Central Asia destined for South Korea. Due to the economic crisis in South Korea, the amount of cargo being transported is "declining rapidly," the *China*

THE CZECH Association of Industry and Transport has charged the Central Bank with working for speculators. "Loans are presently the most important source of funding, but their costs are so high that the enterprises are not able to prepare and carry out projects, which could secure their future profitability," the industrial managers said recently.

MOTOROLA, the giant U.S. electronics firm, said on June 5 that it is cutting 15,000 jobs (10% of its workforce) because of the Asian crisis. One-quarter of its sales, including of cellular phones, which it invented, had been going to Asian nations.

OIL MINISTERS of Mexico, Saudi Arabia, and Venezuela met to discuss measures to stop the fall in the price of oil. They are expected to cut production another 450,000 barrels per day. Brent Oil, the world benchmark crude, is trading at \$14.36, compared to \$21 a year ago. The price has aggravated the pressures on many nations, including Russia and Mexico.

JAPAN'S jobless rate, one of the world's lowest since World War II, hit a record 4.1% in April, and is about to exceed U.S. levels, due to deregulation, Russell Jones, chief economist of the British-run Wall Street firm Lehman Brothers, said on May 29. Jones expects the rate will soon surpass 5%.

HARRAH'S, the U.S. casino giant, has been declared fit to control the Sydney, Australia casino Star City, after a five-month investigation. Harrah's was denied a license 12 years ago because of its mafia connections. New South Wales police have documented that heroin dealers have been using Star City casino chips to launder drug money.

THAILAND'S 23 finance companies and 22 securities houses that survived the early 1997 closure of 54 firms, reported a 76-80% collapse in revenues for 1997: a 6.1 billion baht loss compared to profits of 4.8 billion baht in 1996.

Daily reported. Goods transported in November-December last year, were only 45.5% of the amount in last May-June. By the first quarter of 1998, the amount of cargo had fallen 75.5% from the same period the year before. And, the South Korean economy is not likely to recover soon, the *China Daily* noted.

At the same time, there is "fierce competition" from other transporters. The collapse of cargo shipments on the Trans-Siberian Railroad has prompted the Russians to lower freight charges 10% since Oct. 1, while China has raised its rail fees. The expansion of cheaper maritime transport is also undercutting rail transport.

Finance

Crisis boosts foreign takeovers in Asia

The rate of foreign takeovers in Asia in the wake of the financial crisis is increasing, and most of the takeovers are British-linked.

In the Philippines, sources in Manila and Mindanao have told *EIR* that British-run speculator George Soros is looking to stake claim to the largest commercial bank, Philippine National Bank (60% owned by the government), which is up for privatization this year.

In Thailand, government officials have announced they will further liberalize foreign ownership in firms, after ruling earlier this year that majority ownership could be held by foreigners. Former U.S. President Sir George Bush was in Bangkok for 24 hours on June 5 to push for ceilings to be lifted on foreign shareholding. Merrill Lynch has just picked up 51% of Phatra Securities Ltd. for \$63 million.

Foreign accounting experts are swarming all over Asia, assessing damage and slapping fire-sale prices on firms. Bangkok's *The Nation* reports that 120 British "insolvency" experts (10% of "the senior insolvency profession") are in Thailand alone. The Big Six accounting firms, including Price Waterhouse, Coopers & Lybrand, Arthur Andersen, and Ernst & Young, have had up to 800 staffers in the region over the past nine months.

Science

India developed new technologies for bomb

Indian nuclear scientists have shown their mettle in face of heavy odds, by developing some new technologies and building up a homegrown capability to produce nuclear weapons, the Romanian daily *The Nation* reported in early June.

The paper said Indian nuclear scientists have shaken up the international scientific community by obtaining tritium, the radioactive isotope of hydrogen used in making nuclear weapons, in a completely new way. "India, with its new technology, can produce hundreds of kilograms of tritium in just a few months, and its production is not covered by the NPT [Nuclear Non-Proliferation Treaty]," it said. It added that Western scientists have so far been unable to replicate the Indian method. It reports that at a recent closed-door NATO meeting, some military experts commented that the West had systematically erred in thinking that it could isolate countries with a high human potential, such as India, and thereby block their military progress.

Africa

CFR spokesman backs debt cancellation

Africa needs debt cancellation and big infrastructure projects, said Salih Booker of the New York Council on Foreign Relations, at a seminar at the Center for Strategic and International Studies in Washington, D.C. on June 3.

"It is impossible to have democracy in the Democratic Republic of the Congo without roads and infrastructure," he said. "How can a candidate even campaign, since he cannot even reach his constituents? We need big infrastructural projects in Africa, not this piecemeal stuff." Booker has consistently called for the total cancellation of Africa's debt, and not just relief to a selected few who meet austerity conditionalities.

What you should know about China's economy

by Jonathan Tennenbaum

After an extraordinary 20 years of reform and rapid development, China, with its 1.23 billion population, now occupies a crucial strategic position in the world economy as a whole. There is no nation in the world, which is not affected in one way or another by China's effort, in the face of enormous problems, to transform itself into a leading industrial nation by the middle of next century. Taken together, China and India (soon to surpass China as the most populous nation in the world) will define the center of gravity of mankind's physical economy in the decades ahead.

More importantly, China is right now a decisive factor in the potential constellation of forces, necessary to push forward an emergency reorganization of the world financial system in the immediate period ahead. Without such an emergency reorganization, the imminent collapse of the present financial system—of which the Asian financial crisis is so far merely the prelude—can bring down the entire world economy and throw our planet into uncontrollable chaos. The crucial question, is whether the United States can bring together a “hard core” of industrial and developing-sector nations, for the purpose of setting up a new world financial and monetary system along the lines of Lyndon LaRouche's “New Bretton Woods” policy. As the world's largest developing nation and virtually the only economy in the world which has continued to grow in real, physical terms, China's participation is decisive to the success of that endeavor.

ABCs of China's physical economy

Needless to say, China's economy is a vast and complex subject.¹ The following article does not attempt to give a com-

1. For a useful summary of the reform of China's financial and management system, which is not touched upon in this article, see Dr. Bi Jiyao, “China's Plan for Economic Growth,” *EIR*, Jan. 9, 1998.

prehensive overview, but only to provide the reader some essential elements which must be taken into account in any competent evaluation of the physical economy of that country.

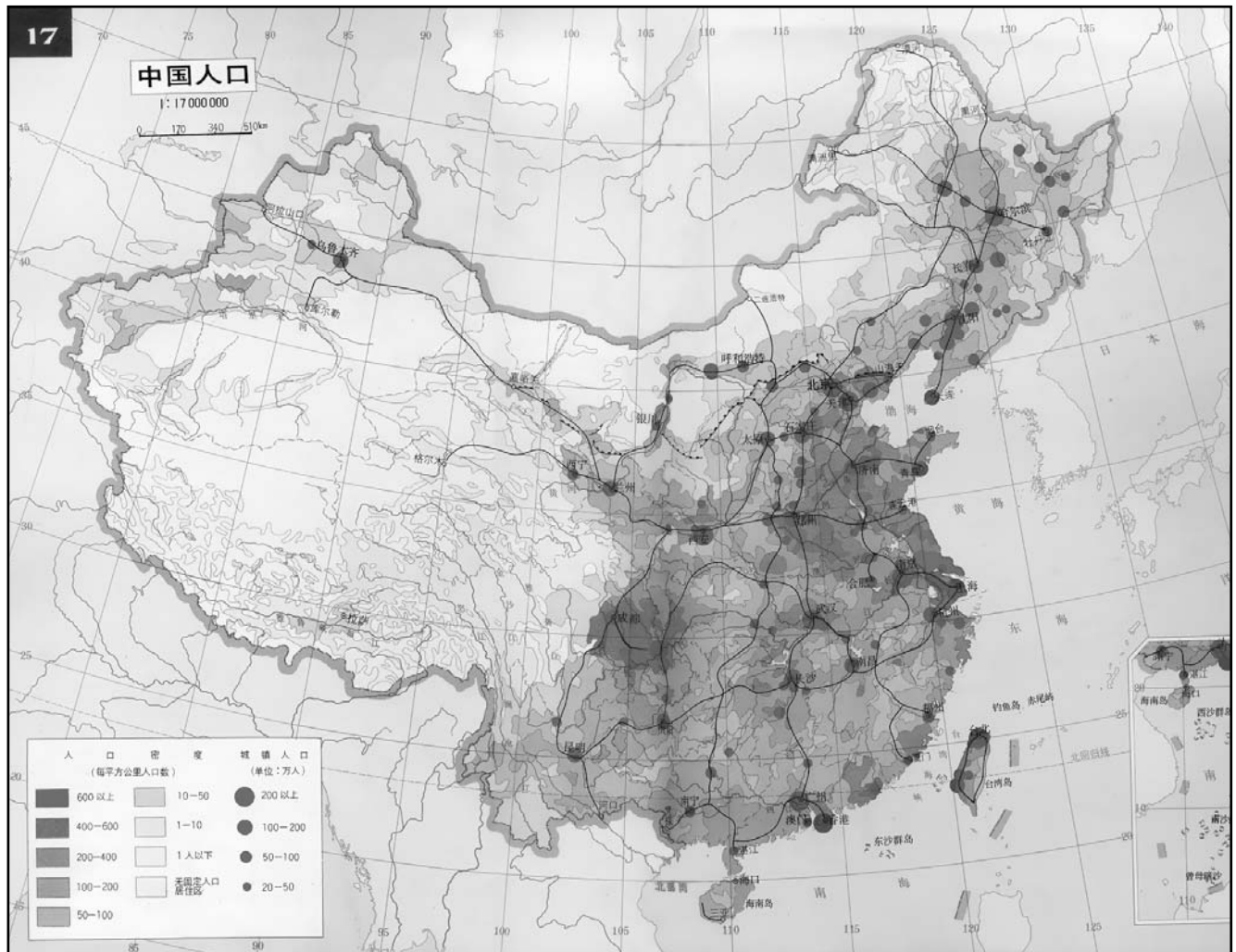
As in any scientific endeavor, in beginning, one must remind oneself that the subject—in this case the economy of a very large and complicated country—is not something that can be touched, seen, or otherwise known to the senses directly. Nor can it be abstracted from mere statistical data, without first defining the essential, real features (the singularities) of the process being studied. The most efficient pathway to *conceptualizing* the Chinese economy, is one which focuses first of all on its paradoxes and anomalies, of which there are very many. This makes China's economy a fascinating and often baffling subject.

A unique moment in 5,000 years of history

The present process of reform and rapid industrial development is an unprecedented phenomenon in Chinese history. While China led Europe in many areas of technology prior to the European Renaissance, it fell rapidly behind in the subsequent period, entering the 20th century as one of the most backward, impoverished nations in the world—a semicolon of foreign powers, with a feudal social structure and without effective national leadership. The patriotic movement of Sun Zhongshan (Sun Yat-sen) and his followers succeeded in formally establishing China's first republic in 1912, ending the millennia-long chain of imperial dynasties. But the initial attempt to launch a modern nation-state development in China was checked by a series of disasters, culminating in the bloody Japanese occupation of large parts of China from 1931 until 1945.

Although significant industrial and agricultural developments were carried out under the Communist leadership in the decade following the founding of the People's Republic of China in 1949, the modernization process was brutally

FIGURE 1
Population density in China



interrupted, once more, by Mao's "Great Leap Forward" of 1958-60, and then, after a brief recovery, by the catastrophic, ten-year "Great Proletarian Cultural Revolution." It is only thanks to the post-1977 policies of Deng Xiaoping, and most emphatically with the consolidation of Jiang Zemin's leadership faction, that a real prospect has been opened up for China to enjoy a long, stable period of intensive economic, technological, social, and political development.

In this brief period of 20 years, China has been transformed to a degree which hardly anyone could have imagined, who knew the country before. The author will never forget accompanying Mrs. Helga Zepp-LaRouche on her visit to China in May 1996. She had last visited China 25 years earlier, in the middle of the "Great Cultural Revolution." She could hardly believe that it was the same country. Yet, despite the rapid development of China's economy over the recent period, and a remarkable overall improvement in the standard of living of the population, there can be no doubt that China

remains a developing nation, with enormous problems to be solved on the way to becoming a modern industrial nation.

Huge population, but low productivity

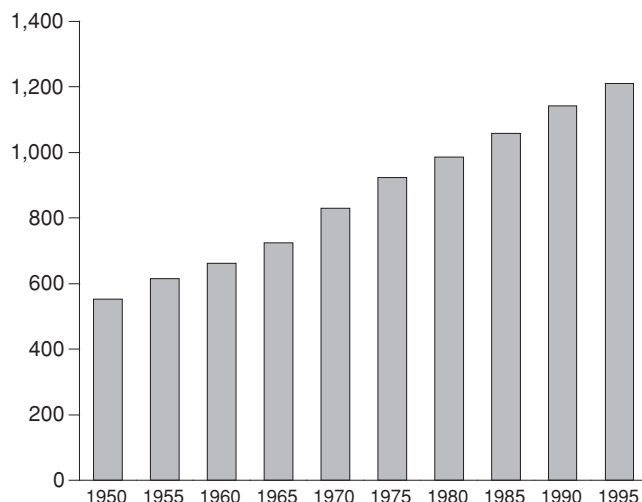
According to an official statistic, China's total population at the end of 1997 was 1.236 billion—about one-fifth of the total world population, and five times the population of the United States. More people live in China today, than lived on the *entire planet Earth* in 1850 (Figures 1 and 2).

Judging from the size of its labor force alone, China should long since have become a superpower. But due to lack of education, lack of technology, lack of investment, and lack of infrastructural development, the per-capita productivity of China's labor force is vastly inferior to that of the industrial nations. In spite of an extraordinary pace of industrial development over the last 20 years, nearly half of China's labor force is still engaged in agricultural production at a very low average level of mechanization. China's actual urban indus-

FIGURE 2

China's population, 1950-95

(millions of inhabitants)

Source: *China Statistical Yearbook*.

trial labor force constitutes only about 12% of the economically active population, much of it working in industries with antiquated and obsolete technology. Although China has risen into the upper ranks of the world's nations in the gross output of energy and other basic industrial commodities, in *per-capita* terms, China has barely reached the levels attained by Germany and the United States 100 years ago. Apart from a layer of highly educated intellectuals and professionals—including a “hard core” of advanced technological capabilities—China is a vast ocean of human beings whose potential has barely begun to be tapped.

Huge territory, but scarcity of exploitable land

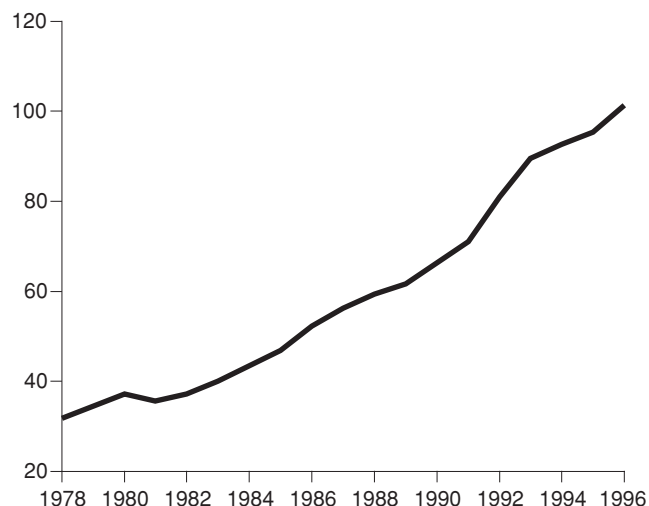
In territory, China is one of the world's largest nations: Its land area is 9.6 million sq km, nearly the same as the U.S.A. (9.4 million sq km), about half the Russian Federation (17.1 million sq km), and three times India (3.3 million sq km). However, climate and geography impose heavy costs on the economic use of much of China's territory. A full *third* of China is mountainous (25% is over 3,000 meters in altitude). Of the remaining territory, approximately 30% suffers from arid climate and 20% is semi-arid. This includes the huge sand deserts—particularly in the Tarim, Turpan, and Qaidam basins—which make up over 13% of the country's land area. Finally, with the exception of the Northern and Central Plains, the Plain of the Chang Jiang (Yangtze River), and the Sichuan basin, much of the remaining area is extremely hilly.

For these reasons mainly, only about 10-11% of China's territory can be usefully cultivated under present economic conditions. That amounts to less than 0.09 hectares of arable land per capita of the population (compare: 0.75 ha farmland per capita in the United States). With 7% of the world's ag-

FIGURE 3

Industrial output of steel

(millions of tons)

Source: *China Statistical Yearbook*.

ricultural land, China must feed 20% of the world's population. In addition, China's difficult topography greatly increases the relative cost to the economy of developing transport and other infrastructure.

China's oldest problem: water

From the most ancient times up to the present, the fate of China has been intimately bound up with the struggle to master the element *water*. Chinese tradition tells us of the great projects of Da Yu, legendary founder of the Xia dynasty (22nd century B.C.), who tamed the waters and saved his people from terrible floods. Since ancient times, the expansion of China's food supply has depended on building up vast irrigation and water control systems. Yet, more than 4,000 years after Da Yu, water still plays a central role in China's economic problems.

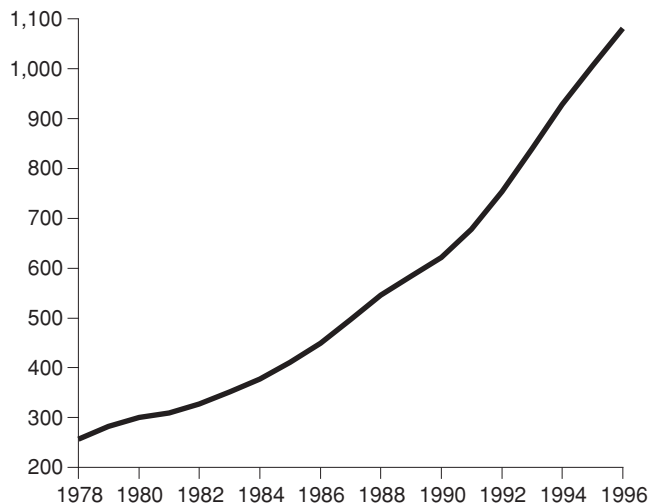
Apart from the periodic menace of floods, China's biggest concern in the chronic, increasingly severe shortage of water in the northern part of the country. As one Chinese author succinctly put it: “In the North, land is plentiful, but water scarce; in the South, land is scarce but the population very numerous.” The eastern region south of the Chang Jiang (Yangtze) River, with 34% of China's land area, has 81% of the available freshwater; while the region north of the Chang Jiang, making up 47% of the nation's land area, has only 7% of the freshwater resources. But even if the water were evenly distributed, China would not be particularly well-off in per-capita terms. In the amount of freshwater resources per capita, China is 88th in the world, with only one-fifth of the world average. Calculated per hectare of arable land, China has only three-quarters of the world average.

At present, the scarcity of water in many areas of the

FIGURE 4

Industrial output of electricity

(terawatt-hours)

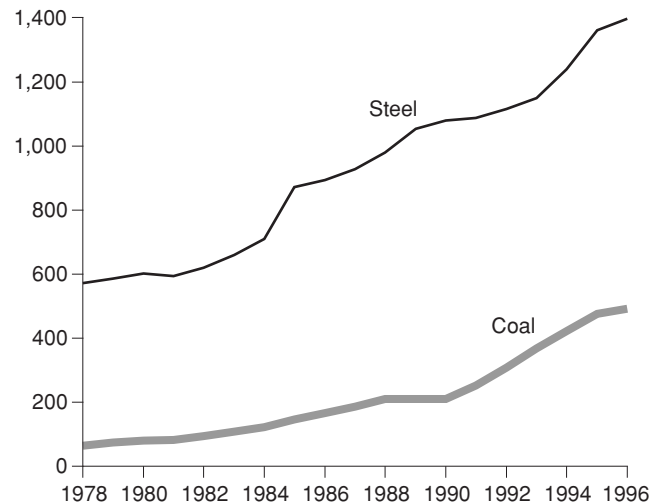


Source: *China Statistical Yearbook*.

FIGURE 5

Industrial output of cement and coal

(million tons)



Source: *China Statistical Yearbook*.

North—and environmental problems deriving therefrom—have become so severe, that they constitute a major barrier to the development and even the economic security of the country. This is the driving force behind a series of “megaprojects” for transporting water from the South to the North via canals and aqueducts, now in various stages of planning and execution. Given the relatively large amount of land in the North of the country, whose agricultural potential is mainly limited by lack of water, every step toward solving the water supply problem in the North at the same time contributes to taking pressure off the food supply problem. With water, the deserts of Northern China might one day feed the entire country.

On the other side, in spite of major improvements in river control, the danger of catastrophic floods of the sort that killed millions of people in the past, still hangs like a Damocles’ sword over the country. It is only in this long view of Chinese history, that one can fully appreciate the extraordinary significance of the Three Gorges Project on the Chang Jiang River, the world’s largest river control project. But even after completion of the Three Gorges Project, much work will remain to be done, including not least the problems of China’s second giant river, the Huang He (Yellow River).

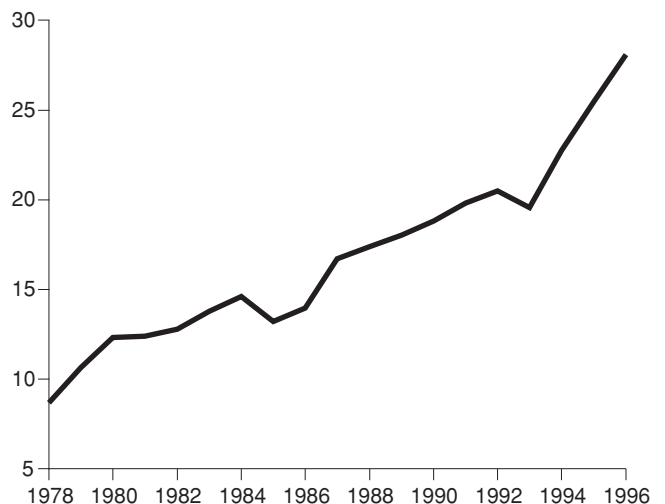
China’s physical growth

There is no doubt, that an enormous, sustained increase in the raw physical output of China’s economy, both absolutely and per capita, has occurred since the beginning of the economic reforms in 1978 (Figures 3-8).² At present, China

FIGURE 6

Industrial output of chemical fertilizer

(million tons)



Source: *China Statistical Yearbook*.

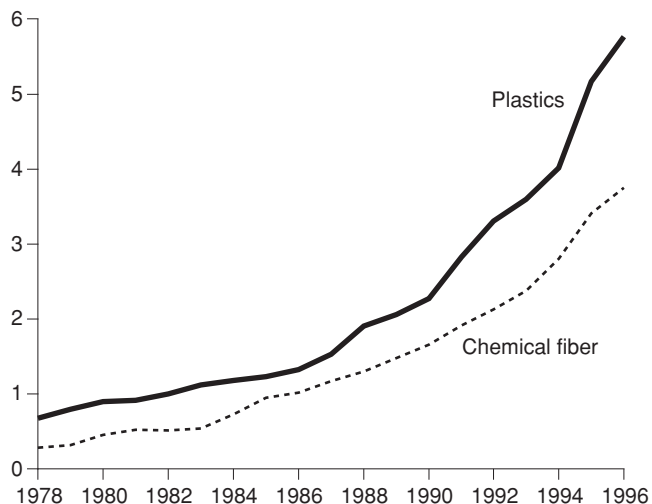
is the world’s largest producer of steel, coal, cement, chemical fertilizer, chemical fibers, TV sets, refrigerators, and washing machines. It is also the number-one world producer of grains, cotton, fruits, meat, and fish. In the generation of electric power, it ranks second in the world, after the United States. (The Russian Federation has fallen from second place, due to the economic collapse there.)

2. Most of the statistical and other economic data in this article are taken from the official *China Statistical Yearbook* and articles in Chinese economic and business publications.

FIGURE 7

Output of chemical fiber and plastics

(millions of tons)

Source: *China Statistical Yearbook*.

In most output categories, China's breakthrough to the top ranks in the world has occurred just during the last ten years. Between 1985 and 1995, the output of steel, electricity, fertilizer, and cement more than doubled. In the course of the Eighth Five-Year Plan alone (1990-95) electrical generation capacity grew by 70 gigawatts, an amount equivalent to roughly one-third of the electrical generation capacity of Japan!

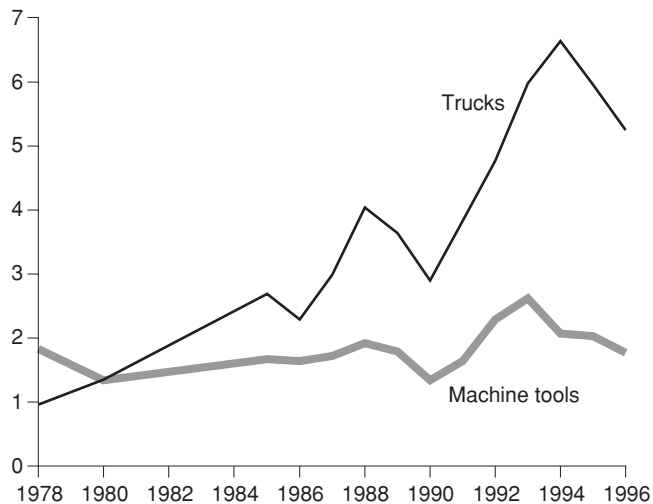
Equally impressive are the dimensions of China's infrastructure development (**Figures 9 and 10**). An efficient, modern telecommunications network, including mobile telephone networks, fiber optics cables, etc., is growing up around the country. During the Eighth Five-Year Plan alone, over 11,000 kilometers of new railway track were laid, equivalent in length to the entire Eurasian Land-Bridge from the Pacific to the Atlantic, and more than enough track to run from the East Coast of the United States to the West Coast and back. While railroad construction continues at full speed, China has now embarked on the construction of a national system of super-highways. Construction of the Three Gorges Project, the largest dam and hydroelectric project in the world, with an estimated overall cost of about \$30 billion, began in 1994. Countless other major transport, energy, and water projects are going ahead.

Besides the rapid buildup of industrial output and infrastructure, there has been a sustained improvement in agricultural production across the board, including a big increase in the output of meat and fish (**Figures 11-16**). China's farmers, the first beneficiaries of the economic reform, have shown notable enthusiasm for improved farming techniques, as reflected in steady increases in per-hectare yields. The nutrition of the population has markedly improved.

FIGURE 8

Products of machining industry

(100,000 units)

Source: *China Statistical Yearbook*.

It is true that in spite of excellent and growing domestic harvests, the rapidly expanding demand for grain (particularly for animal feed) has led to significant imports. On the other hand, China's food imports have been more than balanced in value, by growing exports of agricultural products to the rest of the world. In a study issued last year, the Chinese Academy of Sciences put forward the thesis, that while maintaining a "high degree of self-sufficiency" in all key areas of agricultural production, China has the potential to become one of the largest food exporters in the world over the coming decades.

As impressively large as China's industrial output and infrastructure construction might appear in absolute terms, one must never forget to measure these against a population of more than 1.2 billion (**Figures 17 and 18**). For, in per-capita terms, the industrial production of China is still relatively small. For example, China's per-capita consumption of electricity is 8 times less than Germany and 12 times less than the United States. In terms of raw steel output per capita, China has barely reached the level that Germany had attained *100 years ago!*

Another important indicator is the relatively underdeveloped state of its transport infrastructure, as compared with the population and physical size of the country. I already mentioned the impressive scale of railroad construction in recent years, which has extended China's rail system to a total length of about 57,000 km. This corresponds to a little less than 6 km of rail per 1,000 sq km of land area. In comparison, Germany's railroad system has a density of 123 km per 1,000 sq km of territory! The United States—whose average population density is only a tenth that of Germany and a fifth that of China, and whose once-great rail system has greatly shrunk

FIGURE 9
Railway development projects in China's Eighth Five-Year Plan

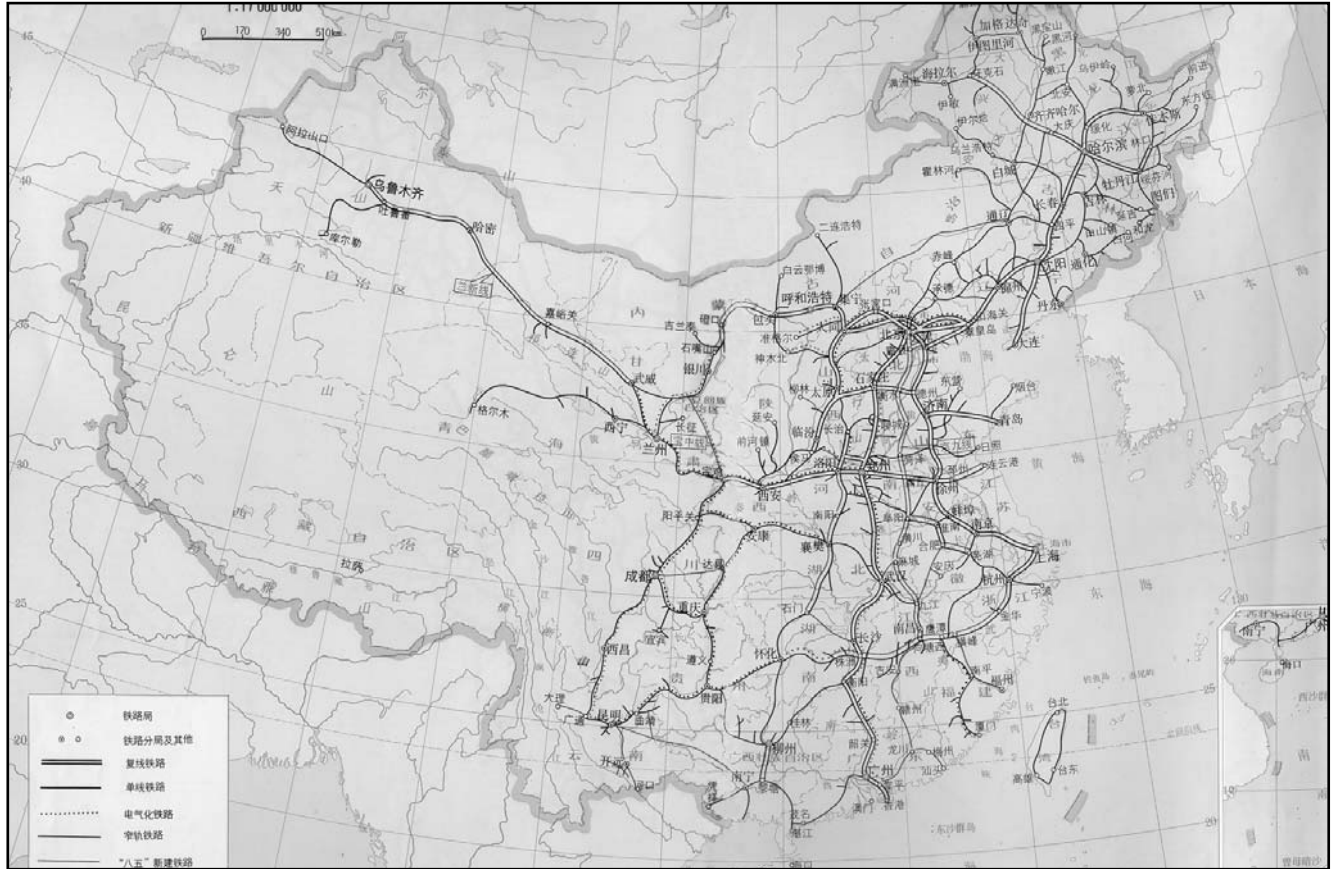
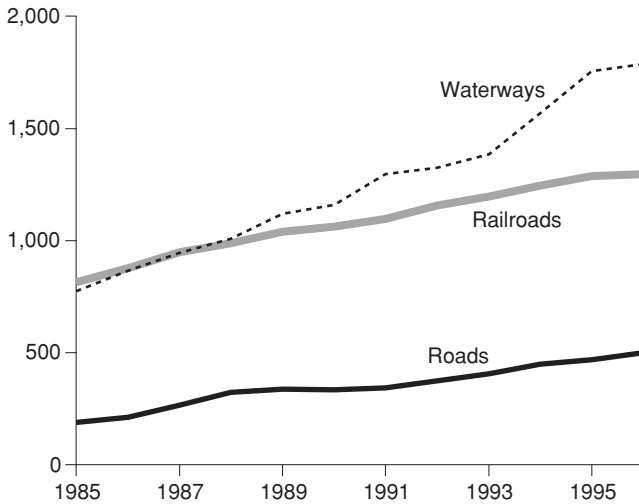
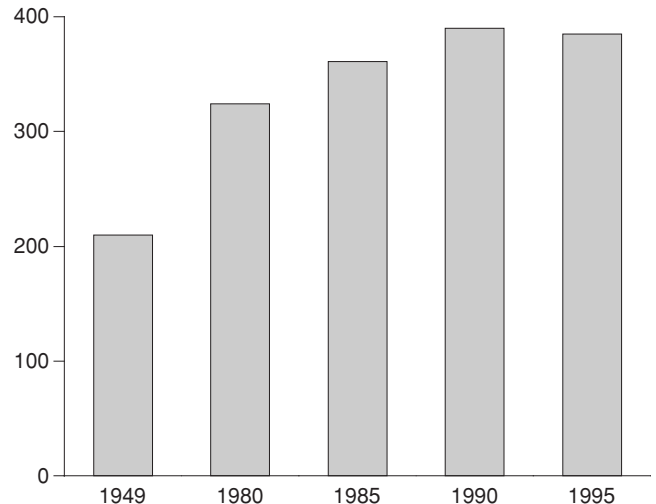


FIGURE 10
Volume of transport in China
 (billion ton-kilometers per year)



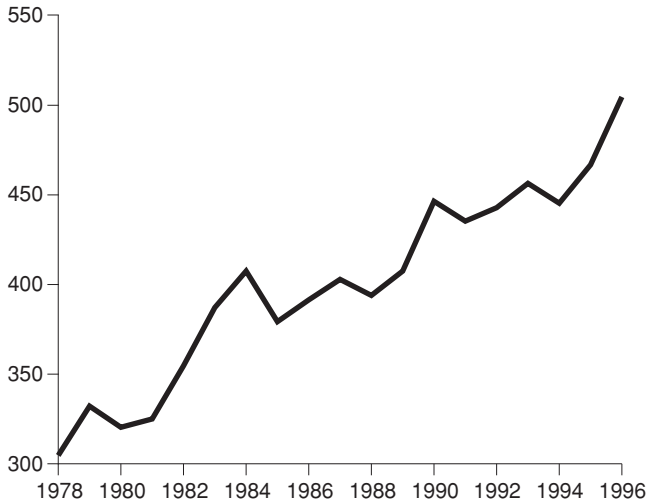
Source: China Statistical Yearbook.

FIGURE 11
China's per-capita grain production
 (kilograms per capita)



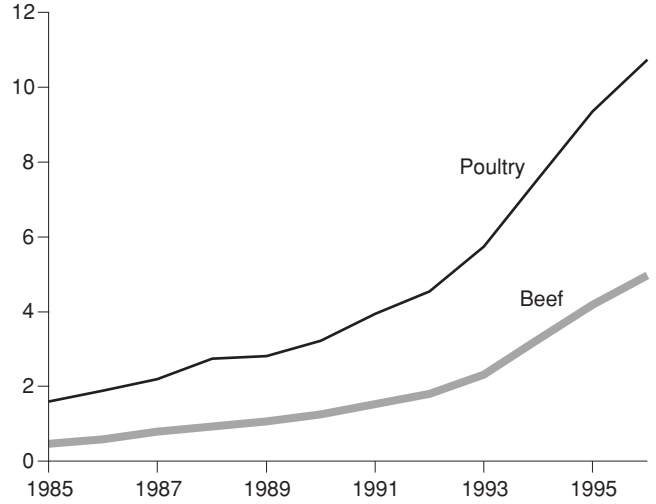
Source: Chinese official statistics.

FIGURE 12
China's production of grain (all types)
 (million tons)



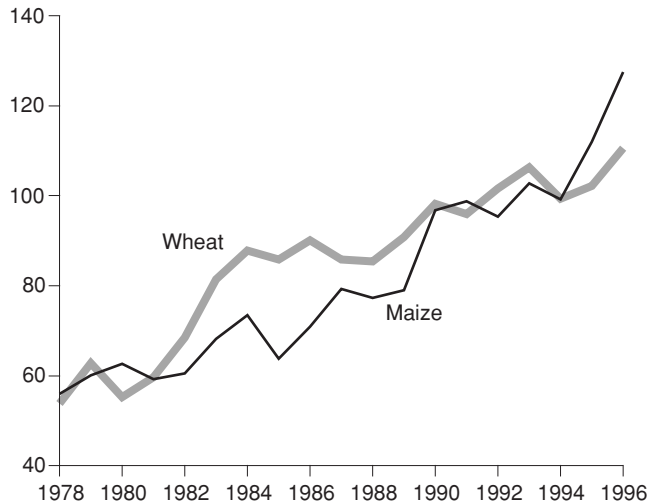
Source: China Statistical Yearbook.

FIGURE 14
Production of beef and poultry
 (million tons)



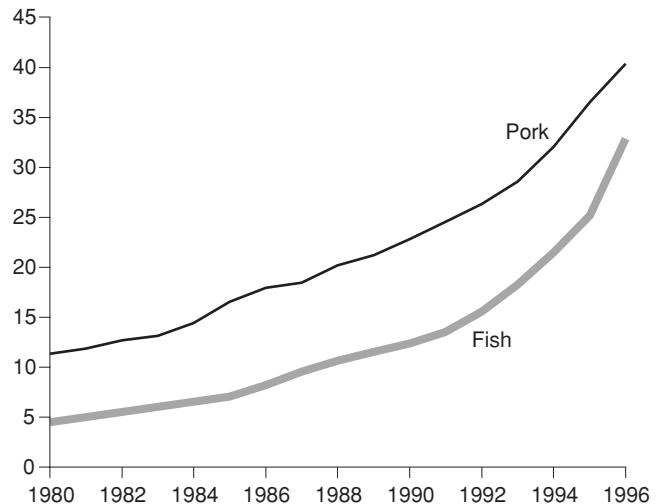
Source: China Statistical Yearbook.

FIGURE 13
Production of wheat and maize
 (million tons)



Source: China Statistical Yearbook.

FIGURE 15
China's output of fish and pork
 (million tons)



Source: China Statistical Yearbook.

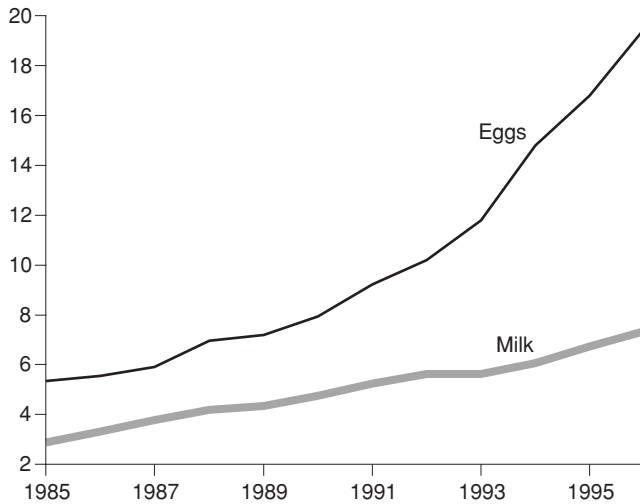
due to anti-industrial policies of recent decades—still has a railroad density of about 25 km of rail per 1,000 sq km of area. With regard to highways, China is even far more underdeveloped. China is only now beginning to develop a system of cross-country superhighways, and many rural areas are poorly, if at all, accessible by paved roads.

Such simple comparisons suffice to refute the ridiculous assertion, floated in some international circles in recent years, that “China is no longer a developing country.” Despite the recent major shift toward industrialization, the overall structure of China’s labor force remains predominantly *pre-industrial*, with the vast majority of the population still living in

FIGURE 16

Production of milk and eggs

(million tons)

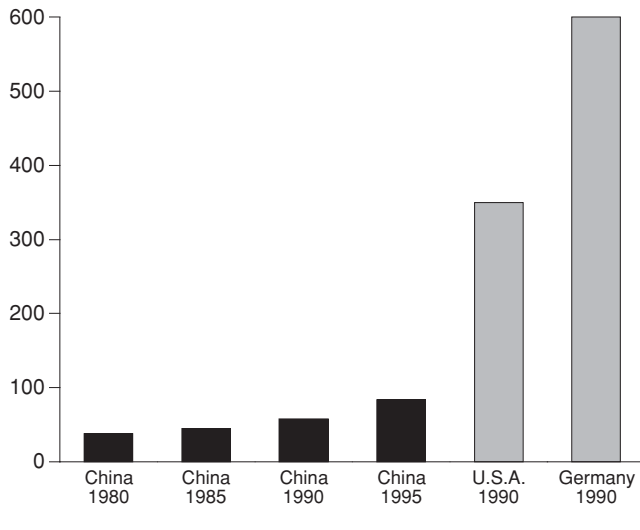


Source: *China Statistical Yearbook*.

FIGURE 17

Per-capita steel production

(kilograms per capita)



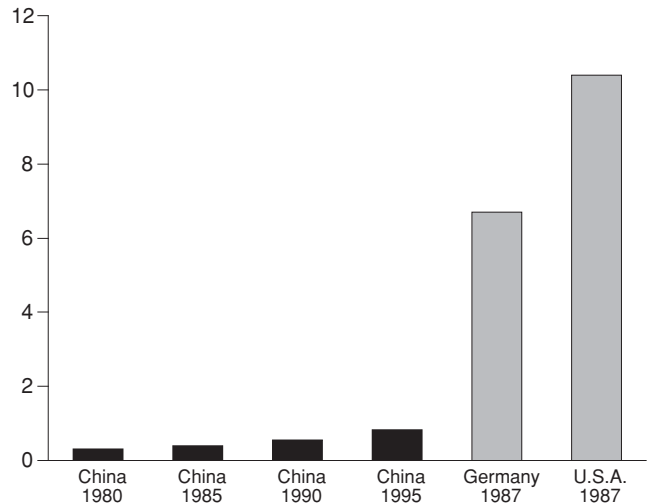
rural areas and half the labor force engaged in agriculture or agriculture-related activities. The industrial base of China is still quite small compared to the population of the country as a whole.

On the other hand, in terms of the absolute scale of employment and raw scale of output, China's industrial base is not "small," nor is it small in comparison with that of the

FIGURE 18

Per-capita electricity generation

(megawatt-hours per capita)



industrial nations. In *numerical* terms, China's industrial labor force of approximately 80 million workers, is larger than that of the United States, Germany, and Japan put together—even if we take into account the significant factor of "hidden unemployment" and underemployment in Chinese industry.

Of course, the average productivity, the level of technology, and the average qualification level of the Chinese industrial workforce is vastly inferior to that of the advanced industrial nations. But China also possesses a hard core of advanced industrial capability, as the result of historical developments in the military-industrial sector (see below), and the more recent policy of large-scale introduction of modern technology and know-how from abroad. That hard core of technological capability is still relatively small in relation to the masses of relatively old, technologically out-moded plants in the state-owned industry, but it represents a significant qualitative asset nonetheless.

Many of the paradoxical features of China's economic performance reflect the persistence of a two-tier structure inherited from long before the beginning of the economic reforms.

On the one hand, in comparison with most so-called developing countries, China has a relatively well-established urban-industrial sector, concentrated in a network of large industrial cities linked by a fairly efficient infrastructure of railroads and waterways. A visitor staying only in Beijing, Shanghai, or other major Chinese cities, and surrounded by modern hotels, office buildings, highways, and apartment projects, might indeed gain a false impression of the actual situation of life for the majority of China's population.

The majority of the population is still concentrated in

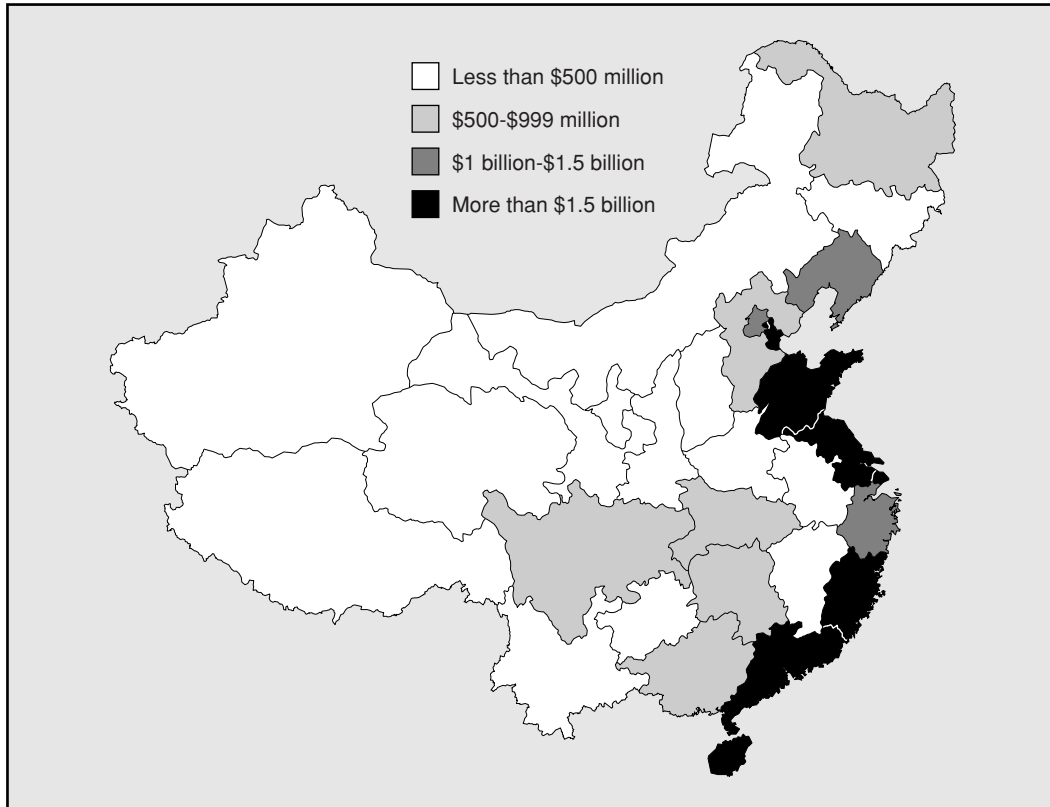


FIGURE 19
Realized foreign investment in China, 1995

Source: *China Aktuell*.

China's vast rural-agricultural areas, which (until recently, at least) have been characterized by a predominance of manual or animal-assisted labor, extremely low average levels of technology and household consumption, and severely underdeveloped infrastructure. Until the reform, the money income of rural households was extremely low; household consumption was provided for mostly by direct allocation of food and other physical goods. It is only in the recent period, with the dissolution of the collective system, the return to a certain form of family farming, and increases in agricultural prices, that the buying power of rural households has dramatically increased.

Thus, until the reform, and to a significant extent even today, the urban-industrial and rural sectors have coexisted with greatly differing technological levels and conditions of life, almost like two separate socio-political-economic entities. In former times, that separation was maintained also by heavy restrictions on the movement of populations. Today, with the relaxation of those restrictions and the booming development in the cities and towns, as well as significant increase in rural incomes, the living standards and mobility of the population have increased greatly.

Added to this is the impact of so-called township enterprises or village industry — i.e., (generally small-scale) manufacturing activities of various sorts established in the rural areas. These enterprises, whose development has been strongly encouraged by government policy, have greatly

boosted rural incomes and absorbed considerable portions of labor no longer needed in agricultural production.³

Nevertheless, large differences continue to exist in real living standards and educational levels between rural and urban areas. It is estimated, for example, that 5 out of 100 rural households possess a refrigerator, while in the cities, the figure is 66 out of 100.

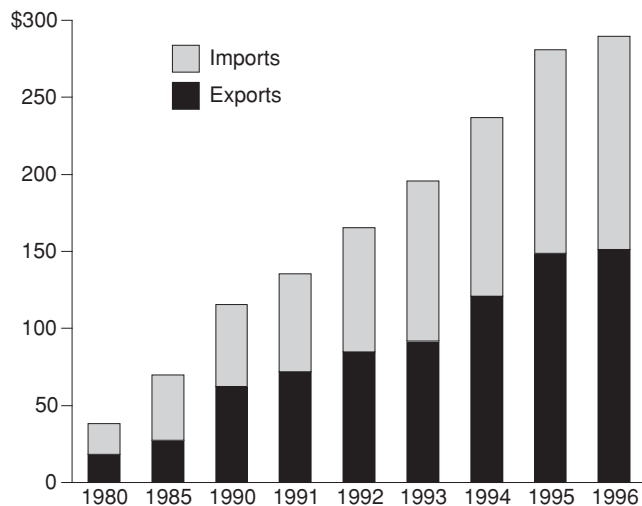
At the same time, the picture of the two-tier economy has been complicated by the rapid development of China's coastal provinces, adding the dimension of a growing discrepancy between coast and inland to that between urban and rural areas. The coastal regions have profited from a number of major advantages, especially in regard to the amount and intensity of foreign investment (**Figure 19**). For one thing, the opening-up of China to foreign investment began with selected coastal areas, and has only gradually been extended to other areas. Another, related reason is that the coastal areas are more easily accessed to the outside world, and costs of transport and other infrastructure are much less than in the interior areas. Thus, the export-oriented industries with foreign investment, which have provided a lion's share of investment and increased income, have concentrated in the coastal areas. Naturally, with their head start and relatively modern state of development, the relative attractiveness of the coastal

3. It is difficult to judge what portion of the rural labor force working in township enterprises should be considered as genuine industrial labor force.

FIGURE 20

Volume of China's trade

(\$billions)



Source: Bank of China.

areas to foreign and domestic investment has further improved, thus widening the gap even more.

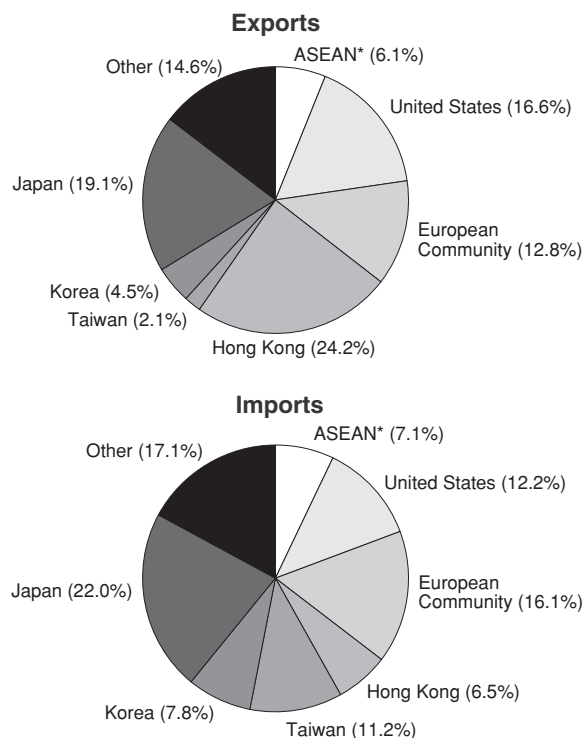
Some prominent Chinese economists have pointed to the indispensable role and responsibility of the central government, to counterbalance the discrepancy between coastal areas and the hinterlands, by providing additional investment and other resources for development of the interior regions. The same applies to the role of the government in combatting poverty and reducing the development gap between rural and urban areas. In principle, both are declared government policy; one of the many manifestations is government investment into development of the Eurasian Land-Bridge rail corridor running through the interior of the country.

Unfortunately, the central government's ability to maintain a reasonable equilibrium between the various areas of the country, as well as to provide adequate investment into science, technology, and education, has been severely hampered by the inadequacy of financial and material resources. Thus, it is imperative for the government to consolidate its tax base, to improve the tax laws, and to enforce the payment of taxes, which has often been poorly enforced in the past. We understand that significant progress is being made in this direction. Ironically, radical reduction of taxes and similar advantages were a major factor in luring foreign investment into the Special Economic Zones in the coastal regions.

China's leadership has declared its commitment to a thorough industrialization and modernization of the entire country over the coming decades. They have set the goal of raising living standards overall to a level comparable to that of the

FIGURE 21

Structure of China's trade (1996)



* The ASEAN nations are: Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Source: Bank of China.

industrial countries. There is no reason to doubt that commitment. This would mean, however, overcoming the two-tier structure, and bringing modern agro-industrial development from the coastal areas into the vast interior of the country.

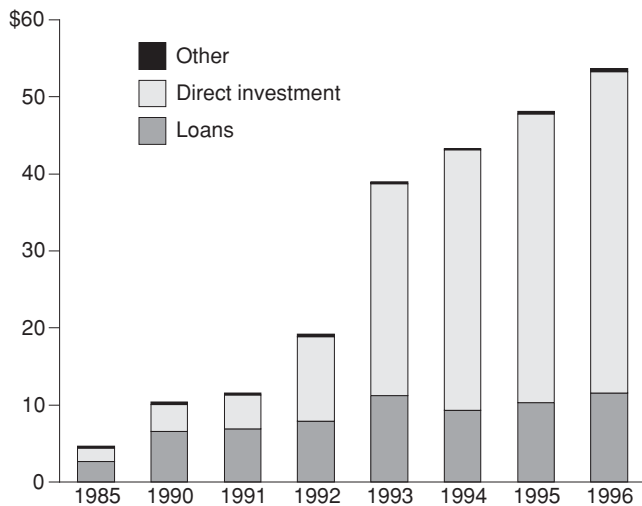
The economic boom in China is often held up as a model for how foreign investment and foreign trade can support the development of a "Third World" country. In fact, from 1979 to 1996, a cumulative total of \$284 billion of foreign capital was invested in China, \$175 billion in foreign direct investment. Foreign trade (exports and imports) went from \$29 billion in 1979 to \$290 billion in 1996 (Figures 20 and 21). China's export income accounts for an astonishing 18% of the overall national income, while foreign investment makes up about 14% of total fixed investment into the economy. On the other hand, China's successful use of foreign investment and export income for national development would have been impossible, if China had tolerated the kind of "free trade," deregulation, and privatization policies which the International Monetary Fund, World Bank, World Trade Organization, and other agencies have imposed on most developing countries.

Some additional remarks are relevant:

FIGURE 22

Foreign capital utilized in China

(billions \$)



Source: Bank of China.

1. In contrast to the prevailing trend in most developing countries, the Chinese government has exercised a relatively high degree of dirigism and planning in the use of foreign investments. This is done through such agencies as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Not only has the government made sure that the largest portion of foreign investment flows into the productive sector, but it has also dirigistically guided that investment into specific areas of technology, industry, and infrastructure, as well as specific areas in the country. While acting to streamline the bureaucratic procedures for foreign investors, and to provide various forms of encouragement, the government continues to maintain a close watch on foreign investments.

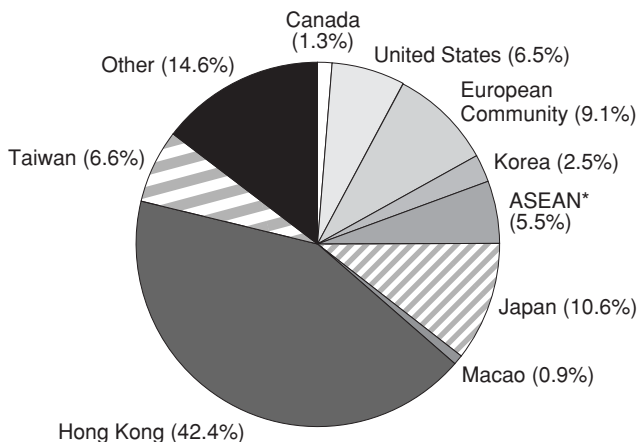
2. In contrast to most developing countries, the overwhelming share of foreign investment has been in the form of direct investments, rather than loans and “portfolio investment” (Figures 22 and 23).

3. An estimated 70% of foreign investments in China come from Hong Kong, Taiwan, and the huge overseas Chinese community, known as the *hua qiao*. Many of these people (more than 25 million) live in Southeast Asia, especially Indonesia (7.2 million), Thailand (5.8 million), and Singapore (2 million), but also the United States, with about 1.8 million. Not only are the overseas Chinese well-known for their business skills, but many take a personal, patriotic interest in China’s development. (There are also some less positive elements of the *hua qiao*, the discussion of which would be out of place in this article.)

4. When speculation and inflation—connected with the “investment boom” in the coastal regions—threatened to get

FIGURE 23

Source regions of foreign capital (1996)



* The ASEAN nations are: Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Source: Bank of China.

out of control in the late 1980s and early 1990s, the Beijing government intervened with dirigistic measures. Not only was inflation brought under control, but the successful “soft landing” was characterized by a renewed emphasis on healthy forms of investment, including especially physical infrastructure and a shift toward investment in capital-intensive forms of industrial production (see description of investment phases, below).

5. Although foreign investment and import of technology have played a very important role, the rapid growth of the Chinese economy since 1979 would have been impossible without two key *domestic* factors: a) a pre-existing, small but relatively well-developed industrial and technological base, including a military-industrial complex possessing a hard core of advanced technological capability; b) the end of the disastrous Cultural Revolution, and a revival of what I would call “Confucian cultural optimism,” while at the same time opening up to the outside world.

6. The relative success of China’s reform and development is ultimately inseparable from the fact that China has maintained a certain independence, national sovereignty, and commitment to development of its national economy—one of the few countries in the world to have done so.

The national-economic development of China is naturally a big and growing thorn in the side of the London-centered world financial oligarchy, which is committed to eliminating national sovereignty and establishing a “world government” based on the dominance of supranational financial institutions. This is the ultimate source of the enormous pressures being applied to the Chinese government, in the context of negotiations for entry into the World Trade Organization and

in other contexts, to force China to give up key aspects of its national sovereignty and to force it into a position of financial and economic dependency. So far, however, China has resisted, and China's resistance is being strengthened by the growing realization, that the globalist financial institutions are themselves hopelessly bankrupt, and that the entire system is headed for collapse.

Chinese industrial development since 1949

In order to gain an adequate understanding of China's present economic situation, including the challenge of reform of state-owned industry, it is necessary to review some of the highlights of China's economic history since the founding of the P.R.C. in 1949. That history is characterized by a succession of rather abrupt, zig-zag turns of economic and social policy.

Period of Soviet-assisted industrial construction (1950-60)

At the moment of its founding in 1949, the People's Republic of China had virtually no industry, outside of what the Japanese had left in Manchuria, plus some industries in Shanghai and a few other coastal cities. While early attempts by the new Communist Party leadership to establish ties with the United States and other Western countries met with a cold shoulder, the post-war reconstruction and development of the P.R.C. benefitted from major support from the Soviet Union.

During the 1950s, the Soviet Union provided the P.R.C. with large amounts of industrial equipment and technological know-how, laying the foundation for much of the pre-reform development of China's heavy industry and machine-building sector, both in the civilian and the military-industrial domains. In a number of key cities, particularly in the northern half of China, large, Soviet-style industrial complexes were set up. During this period, Soviet advisers were active in countless facets of China's development, ranging from industry, infrastructure, and housing construction, to technical education and city planning. At a time when the P.R.C. was virtually cut off from contact with Western countries, a core of Chinese technicians, engineers, and scientists received advanced training and practical experience in the Soviet Union. Many of China's present top leaders, including Jiang Zemin, Zhu Rongji, and Li Peng, received technical training in the Soviet Union in that period. In addition, China's industrial development was greatly assisted by Western-educated Chinese scientists and engineers, who returned to China in the post-1949 period, after studying and working abroad.

In the context of this "Stalinist" industrial buildup, Mos-

cow also gave crucial assistance in military-related technologies, particularly in the fields of aircraft manufacture and nuclear energy. China's military aircraft industry got its start in the manufacture of early-series MiG fighters, and plants for production of T-54 tanks and other military hardware were set up. The year 1955 marked the official start of China's nuclear program, for which Zhou Enlai took personal responsibility. In that year, the Soviet Union began to help China with uranium prospecting and with the construction of a cyclotron and a 7 MW heavy water reactor. The latter went into operation in 1958, while at the same time, detailed planning and preparations were made, with Soviet assistance, for the construction of a uranium enrichment plant and other key nuclear technologies.

Beginning already in mid-1959, and accelerating rapidly thereafter, the Soviets began to withdraw their technical assistance to the Chinese nuclear and other advanced-technology programs. With the open break between the Chinese and Soviet leaderships in 1962-63, virtually all Soviet aid to China's economy was suspended. In response to what they saw as global encirclement from the West *and* the Soviet Union, the Chinese put their nuclear and related military technology programs on a virtual war-mobilization footing. In an astonishingly short period of time—given the limitations of virtually autarkical development and the still extremely backward state of China's industrial and technical base—China produced its first nuclear explosive device, and went on to test a missile-delivered nuclear weapon. A short chronology records some of the highlights:

Oct. 16, 1964: First ground test of a fission device by China.

May 14, 1965: First test of an aircraft-delivered fission bomb.

Oct. 27, 1966: First test of a guided missile-carried nuclear weapon.

June 17, 1967: First H-bomb explosion by China.

April 24, 1970: Chinese launch satellite into Earth orbit.

At the cost of enormous sacrifices, carried out in isolation from the rest of the world and under extremely repressive political conditions, the Chinese nuclear and rocket programs, and related "crash programs" in the military-scientific field, nevertheless established a significant base of advanced technological capability in the country. While the influx of foreign investment and technology since the beginning of the reform has been very significant, it alone cannot account for the virtual economic miracle of post-1978 China.

The 'Great Leap Forward' (1958-59) and 'Three Bitter Years' (1960-62)

Between 1953 and 1957, China's First Five-Year Plan succeeded in establishing a core of heavy industry and machine-building as well as an 18% increase in agricultural output. Toward the end of that period, parallel with the increasing shift of the post-Stalin Soviet Union toward a "détente" policy

with the West, resistance began to build up against the “Soviet model” within the Chinese leadership. Perhaps anticipating a drastic reduction in Soviet economic assistance, the Chinese leadership under Mao Zedong turned away from the relatively capital- and technology-intensive, urban-centered approach of the Russians, adopting instead Mao’s strategy for deploying China’s peasant masses in decentralized, low-technology, labor-intensive forms of production.

Mao’s economic philosophy found a concentrated expression in the forced collectivization campaign, in the People’s Commune Movement launched in 1958, and above all in the disastrous “Great Leap Forward” of 1958-59. The cost was high: It is estimated that from the end of the “Great Leap Forward” through the ensuing “Three Bitter Years,” over 10 million people died of hunger. China’s economy was ruined.

Partial recovery and the launching of the ‘Third Line’ (1963-65)

The utter failure of the “Great Leap Forward” and related policies strengthened the authority of Liu Shaoqi, Deng Xiaoping, and others in the leadership, who emphasized the importance of technological development and economic efficiency over Mao’s “mass ideology.” Under a series of measures essentially reversing Mao’s policies, China experienced a partial economic recovery, including a significant revival of industry.

In 1963, in the middle of the recovery, a new, sudden turn of policy occurred, with the launching of the so-called “Third Capital Construction Line.” The “Third Line” had the character of a war-economy mobilization, conducted in the context of Mao Zedong’s conviction, that a nuclear war was probable or even imminent in the near future, and that the concentration of industry in China’s coastal regions made the country extremely vulnerable to attack. (One should remember, also, that the Vietnam War was escalating throughout the period of the “Third Line.”) In a conscious imitation of Stalin’s World War II policy of relocating Soviet industry en bloc to the regions east of the Ural Mountains, the Chinese leadership launched a “crash program” to relocate strategic industries to the relatively remote interior regions of the country—in the provinces of Sichuan and Guizhou, the southern parts of Shaanxi and Gansu, as well as the western parts of Hunan and Hubei. Besides relocating existing industries, countless new industrial plants were built up, with the aim of establishing a fully developed defense-industrial base in the hinterland. At the same time, the “Third Line” went hand-in-hand with the most advanced technological developments in the country, including development of long-range missiles (centered especially in Sichuan), military aircraft construction, and the nuclear program.

According to Chinese sources, the total investment into “Third Line” construction, between 1965 and 1971, amounted to about 127 billion yuan. Western experts esti-

mate, that about 40% of the total capital investment of the country in that period went into the “Third Line.”

“Third Line” construction meant not only military industries per se, but also brought basic industries, water systems, electricity, transportation, communications, education, and other basic economic infrastructure for the first time into many of the most underdeveloped areas of China. Tens of thousands of specialists, engineers, and skilled workers were brought into heretofore backward areas; schools and housing had to be constructed for their families, and training facilities set up to educate the local workforce engaged in construction and industrial projects. From the last half of 1964 through 1965 alone, some 300 large industrial complexes were set up in the “Third Line” areas, including 14 steel plants, 18 non-ferrous metallurgy plants, 14 chemical plants, 10 fertilizer plants, etc.

At the same time, 26 railroad projects were launched, including one of the most difficult and dangerous railroad projects in the world: the 1,100 km line from the city of Kunming to Chengdu in Sichuan Province. Seen as a crucial link from the military-strategic standpoint as well as from an economic standpoint, this rail line ran through some of the most difficult terrain in all of China. Some 991 bridges had to be built, making up over 40% of the total length of the line, plus countless tunnels. The “Kuncheng” rail project was closely connected with another of the most important and challenging projects of the “Third Line”: the construction of a huge steel complex at Panzhihua, a remote and extremely difficult location.

The economic impact of the “Third Line” remains a matter of hot debate in China up to this very day. On the one side, the costs of building, maintaining, and operating infrastructure and industrial plants in the “hinterland” areas were astronomically high, compared with the easily developed coastal regions of China. Hence, “Third Line” industries were hardly competitive from a simple-minded economic point of view. On the other hand, under the conditions of a virtual war-economy mobilization, infrastructure and industrial development was spread for the first time deep into the interior of the country. In a very short period, the existing core of scientific and engineering cadre and machine-tool capability was revived and greatly expanded.

The ‘Cultural Revolution’ (1966-76)

Merely two years after the “Third Line” was launched, the whole country was thrown into chaos by a completely contradictory policy thrust: Mao’s “Great Proletarian Cultural Revolution.” Under the attacks of the Red Guards, countless “Third Line” projects were brought to a standstill; transport was disrupted; project leaders, specialists, and even workers were harassed, prevented from working, or sent off to other areas.

Exemplary of this process is Sichuan Province, one of the key centers of “Third Line” construction. Between 1966 and

1968, industrial production collapsed by over 48%. Deng Xiaoping, who played a significant role in the “Third Line,” made major efforts to protect and restore production, only to be denounced and punished. A further, disastrous collapse of industrial and agricultural production occurred, reaching its worst point in 1976, when the amount of agricultural produce purchased by the state amounted to merely three-quarters of what it had been 20 years earlier. The strategic “Kuncheng” railroad project, whose construction was already half-completed by the end of 1966, was brought to a virtual standstill. It was only through the personal intervention of Prime Minister Zhou Enlai, that the railroad could finally be completed, in the summer of 1970. Countless other examples could be mentioned.

Thus, in the midst of the terror and devastation of the Cultural Revolution, the political protection provided by Zhou Enlai and others—no doubt under the pretext of the vital military-strategic importance of the “Third Line”—kept some of the original “Third Line” policy thrust alive, and allowed many of the most important projects to go ahead. Although a faction of the Army had opposed the Cultural Revolution from the very beginning, it was first after the 1972 death of the Chief of the General Staff Lin Biao, a particularly rabid supporter of the Cultural Revolution, that the groups around Zhou Enlai and Deng Xiaoping could expand their influence and eventually bring the Cultural Revolution to an end.

It is most revealing, that over the entire period of Maoist rule, from the founding of the P.R.C. until the beginning of the Deng reform, hardly any change occurred in the overwhelmingly peasant character of China’s population structure; the percentage of labor force engaged in agriculture fell by only 8%—from about 90% in 1950 to 82% in 1978.

Shift to reform (1977-79)

With the death of Mao Zedong in September 1976, and the defeat of the “Gang of Four” in the ensuing period, the way was opened for fundamental changes in practically all policy domains. December 1978 marked the official beginning of the new reform course under Deng Xiaoping, which reversed Mao’s emphasis on “class war” and placed the highest priority on science, technology, and the “development of the productive forces” by the most rapid and effective means available. It was this policy, still evolving today, which dictated the transition to a “socialist market economy,” in which a growing role of markets and private enterprise is to be combined with the maintenance of “macroeconomic control” by the government and a continued, dominant role of “public ownership” in strategic sectors of the economy.

Phases of the post-1978 reform

To describe the various economic reform measures and their evolution since 1978, lies beyond the scope of this article. Readers are referred to the excellent summary provided

by Chinese economist Bi Jiyao, and published by *EIR* on Jan. 9, 1998.

We have already noted that the economic reforms in China under Deng Xiaoping took an entirely different pathway than the infamous shock therapy applied to the former Soviet Union.

In Russia, reform focussed on radical privatization of the state-owned industry and drastic reduction of the economic role of the central government, while the large-scale collective farm structure of the agricultural sector remained unchanged.

In China, the reform *began* with the agricultural sector, by dissolving the Maoist agricultural collectives and transferring responsibility for cultivating the land into the hands of the individual families, via the so-called responsibility system. Fundamental reform of the state-owned industry was put off to a much later stage, and is only beginning now, some 18 years later. In stark contrast to Russia, where the so-called reform led to a precipitous collapse of industrial production, the Chinese reform has emphasized rapid expansion and modernization of production, employing foreign capital and know-how on a large scale, while at the same time carrying out major improvements of transport, energy, and communications infrastructure.

Rather than to privatize the state-owned industry, the early emphasis of industrial reform policy was to bring in foreign investment and technology to establish a large number of *new private and collective enterprises* and modernize as many state-owned enterprises as possible. The new enterprises, in large part joint ventures oriented toward exports as well as the domestic market, were initially concentrated above all on an array of Special Economic Zones in coastal regions.

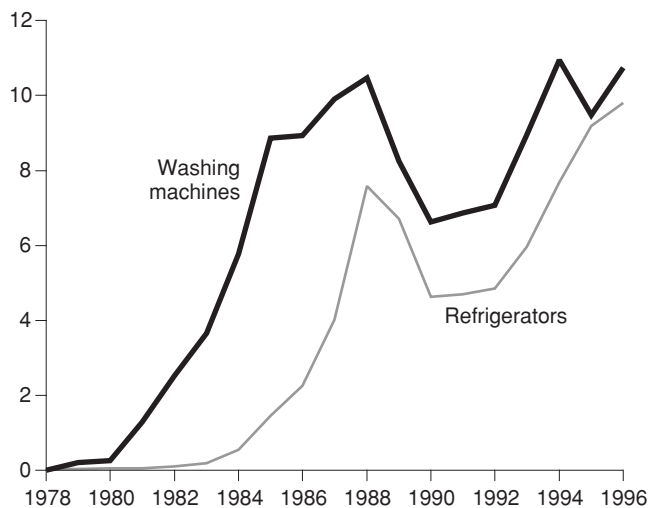
In the first phase, the foreign capital input was concentrated in the south of the country, especially in Shenzhen, adjacent to Hong Kong in Guangdong Province, and then gradually moving northward along the coast. Based largely on investments and joint venture capital from Hong Kong, Taiwan, and overseas Chinese businessmen, this first phase was characterized by the exploitation of cheap labor in labor-intensive, relatively low-technology modes of production. This included especially enterprises producing clothing and textile products, shoes, toys, and other consumer goods for export.

At the same time, the rapid increase in household income—an average of 17% increase per year for rural households between 1979 and 1985, and even more for urban households—helped fuel an enormous domestic demand for consumer goods. This led in the early 1980s to a sharp increase in the production of “traditional consumer goods,” for which a considerable production base already existed before the reform: spinning and weaving, clothing, shoes, wrist watches, sewing machines, food products, and some others. China’s own capital-goods industries were able to supply a great part of the equipment and infrastructure needed for

FIGURE 24

Output of selected consumer goods

(millions of units)

Source: *China Statistical Yearbook*.

this expansion.

By the early 1980s, the expansion of “traditional consumer goods” had virtually saturated the domestic market. The expansion process shifted toward consumer durables, including especially household appliances, for which there is great demand in China: refrigerators, washing machines, television sets, etc. At the same time, and connected with this, the emphasis in use of foreign capital shifted toward higher levels of technology. This included setting up modern plants in China to carry out the more labor-intensive operations in the manufacture of high-technology products, often importing certain critical components and materials from abroad. A landmark in this second phase was the establishment of the Pudong Industrial Zone in Shanghai.

Toward the end of the 1980s, the rapid increase in production of consumer durables slowed down, in large part because the prices of many of those goods—whose manufacture required considerable amounts of imported machinery, components, and materials—were still too high compared to the average family income, especially in the rural areas (Figure 24). Stimulated by a huge boom in infrastructure and building construction, the center of gravity of industrial expansion shifted to primary industries such as steel, cement, petroleum, and chemicals. The construction boom has continued to grow from the early 1990s until today. The scale of urban construction in particular can only be described as mind-boggling—as any visitor to Shanghai and other major Chinese cities will affirm. This is the third phase of development under the reform.

Some structural problems in China's industrial development

It is generally acknowledged in China that the country has now entered the most difficult and decisive period in the entire reform process: the phase of large-scale restructuring and modernization of the state-owned industry, which poses severe problems not encountered in the previous phases of reform. Chief among these is how to create useful employment for tens of millions of so-called “excess” workers, whose present jobs are threatened by the ongoing rationalization of state industry, including the closing-down of obsolete or ineffective production.

Faced with this challenge—compounded by the effects of the Southeast Asian and world financial crisis, which can lead to dramatic falls in China's export earnings as well as in the flow of foreign investment—the Chinese leadership has come up with an extraordinary new policy: to launch a kind of “Chinese New Deal,” which would stimulate economic growth and employment by large-scale public and private investments into (especially) housing, infrastructure, and other public works. We shall say more about this below.

In order to understand the nature of the challenge facing China in this phase of reform, it is necessary to point out some of the weaknesses in China's recent economic development, including structural problems left behind by the history I have just sketched.

Despite the Chinese reformers' declared emphasis on “developing the productive forces,” a significant part of the spectacular growth of China's nominal GNP since 1979 has been connected with investments that have little or no positive impact on real physical productivity. A large component of this has been a dizzying boom in construction of luxury hotels and apartments, shopping malls, office buildings, and other nonproductive facilities. Another component has been the misdirected channeling of precious resources into the overexpansion of certain sectors of production—particularly in textiles and other consumer goods. This purely linear, extensive kind of development, encouraged by chaotic or nonexistent planning and a rush toward quick profits, has resulted in massive redundant capacities and mountains of unsaleable, generally low-quality goods.

These and related phenomena began to become rampant in the pre-1993 period, when a parasitical “bubble economy” grew up in many coastal regions of China, connected with the sudden inflow of large amounts of foreign money seeking high rates of return in real estate development and labor-intensive export industry (including an unknown portion of “hot money” from Hong Kong and other areas). These “bubbles” played a key part in the outbreak of double-digit inflation which threatened to destabilize the country at the beginning of the 1990s. (The Chinese population has a strong

TABLE 1

China's imports of capital equipment in 1996

(categories with more than \$1 billion in imports in 1996)

Textile machinery	\$2.65 billion
Metalworking machine tools	\$2.52 billion
Moulding equipment	\$1.93 billion
Lifting, transporting, loading and unloading equipment for machinery	\$1.73 billion
Automatic data processing equipment and components	\$2.88 billion
Cable-based telephone and telegraph equipment and spare parts	\$1.16 billion
Television receivers and wireless communication equipment and parts	\$1.39 billion
Electric circuit switching and protection devices	\$1.43 billion
Integrated electronic circuits and micro-electronic modules	\$2.60 billion
Automobiles and auto parts	\$1.91 billion
Aircraft	\$2.13 billion
Equipment for control and measurement, scientific instruments, and tools	\$1.89 billion

cultural tradition of family savings; hence, the potential explosive implications of a high inflation rate.) The so-called “soft landing” accomplished by the Chinese government after 1992-93, in greatly reducing inflation without interrupting real physical growth, was a major victory for the national leadership. Nevertheless, the tendency toward linear or purely extensive growth and the bubble economy remain major problems.

A closely related issue, a very serious one in the medium term, is the future of the China's strategic capital-goods industries, especially machine tools and machine building generally. This, of course, directly intersects the issue of reform of the state-owned industry, where much of the strategic capital-goods production has been concentrated.

As I have indicated, China's industrial expansion, especially in the second and third phases mentioned above, depended on large-scale imports of modern production equipment (**Table 1**). China is presently the second-largest importer of machine tools and industrial equipment in the world. Machine-tool imports alone grew from \$485 million per year in 1990 to over \$2 billion by 1994. At the same time, the share of domestic capital-goods industry in the domestic market has decreased dramatically. Whereas up to the beginning of the 1980s, domestic producers were still supplying 90% of the country's consumption of production machinery, that percentage had already fallen to 69% in 1994. In the case of machine tools, the domestic producers' share of China's machine-tool market sank from 62% in 1991 to less than 40% in 1994. At present, 80% of purchases of numerically controlled machine tools in China are imported. Similarly,

the share of domestic production in China's consumption of electrical machinery has fallen dramatically.

Now, the Chinese government's policy of encouraging foreign investors to bring in modern equipment from the outside is obviously a good and very necessary policy. On the other hand, the modernization of the machine-building and especially the strategic machine-tool industry—which should continue to supply the lion's share of China's vast requirements—has *not* been pursued with the same intensity as the more lucrative setting-up of modern production-lines for consumer goods. As a result, the domestic capital-goods industry is facing an increasingly difficult situation as a result of competition from foreign imports of production equipment.

The average technological level of the domestic machine-building industry, reflecting its roots in the period of Sino-Soviet cooperation and a subsequent period of nearly autarkical development, lags greatly behind the present standard of the Western industrial countries. Enormous long-term investments in modernization of equipment and training of manpower will be required, in order to bring this sector up to a level competitive with foreign producers overall. Insofar as China's economic policy and investment environment are oriented toward rapid expansion in the short term, it might appear more profitable to rely on imported machinery and to allow the domestic machine-building sector to shrink further. In the medium and long term, however, such a policy would completely undermine China's security and viability as a sovereign nation.

The Chinese government and industry are, of course, not unaware of this situation. Many measures have been initiated to upgrade the technological level and competitiveness of China's producers of machinery and other industrial equipment. Besides the general strategy of assimilating the most advanced foreign technologies, China is pursuing its own high-technology R&D programs, including the famous “836” program, in such fields as numerically controlled machine tools, materials science, microelectronics, and laser technology. While these programs are excellent and necessary, in the author's view they are hardly sufficient to bring China's domestic machine-tool and industrial equipment sectors up to the level the country's future really requires. To transform these strategic sectors, China needs an array of *large-scale* high-technology projects—including government-supported “crash projects” analogous to the key role which nuclear and aerospace programs (such as the Apollo program) played in boosting the productivity of the United States, Japan, France, Germany, and other major industrial economies in the post-war period.

The most obvious idea—which fits very well with the “New Deal” policy announced by the Chinese government—would be to take China's enormous infrastructure deficit (transport, energy, urban construction) and transform it into a locomotive for modernizing much of the capital-goods

sector. The key would be to build infrastructure “development corridors” based on the most advanced technologies available, thereby accomplishing two things: 1) providing China with a highly efficient infrastructure suited to the 21st century (rather than the 20th century!), including advanced, high-speed ground transportation systems and advanced forms of nuclear energy; 2) creating a huge domestic demand for high-technology equipment, thereby greatly stimulating the development of the relevant sectors of Chinese industry.

Nuclear power is the obvious candidate for such an approach. China already has the capability to build its own nuclear power plants, as demonstrated in the Qinshan power station. China has also developed successful partnerships with France and other countries in the nuclear power field. In addition, China is presently constructing an experimental high-temperature reactor (HTR), which is the prototype of *mass-produced modular HTR reactors* which can provide process heat as well as highly efficient electricity generation. At the same time, China’s dependence on coal as the main source of energy (China presently burns up 1.3 billion tons of coal each year!) exerts an enormous drag on the economy, clogging up the transport system and creating a severe pollution problem. The rational alternative is to go for mass production of modular nuclear reactors, with the long-term goal not only of “freezing” the consumption of coal, but also finally shifting entirely from coal to advanced forms of nuclear energy, together with gas, hydroelectric, and nuclear-produced synthetic fuels as the main source of electricity and industrial process heat.

The other crucial area is high-speed ground transport. By the year 2000, more than 100 million Chinese will live in cities of more than 1 million inhabitants, and urbanization will continue at a rapid pace. China urgently needs a “crash program” to 1) build up high-speed ground transport links among the cities, avoiding the enormous waste associated with over-reliance on short- and medium-range air transport; 2) to build up high-speed urban mass transit systems inside the cities (only Beijing and a couple of other cities have even the rudiments of an underground mass transit system). Magnetic levitation systems would be the most attractive, high-technology option, and this concept has been receiving increasing attention in China. This would mean building up entire new, “sunrise” industries.

A common objection to this kind of approach is that, given the long-term nature of such projects, they could only be carried out with huge investment by the state—investments far beyond the present financial means of the central government. Actually, we consider that on the basis of a rigorous use of “Hamiltonian” methods of national bank credit-generation, high-technology infrastructure development could not only be successfully financed on a large scale, but it would bring enormous “pay-backs” to the Chinese economy already in the short term.

The problems of state-owned industry

At present, state-owned enterprises are still the main suppliers of energy, raw materials, and industrial equipment to China’s economy. They occupy the leading position in communications and transport. In the postal and telecommunications sectors, commercial air transport, and rail transport, state-owned enterprises still account for nearly 100%. The state-owned industry acts as the locomotive and dominating force in the sectors of electricity, coal mining, petroleum extraction, metallurgy, chemicals, electrical machinery, and textiles. It has a dominant role in the strategic machine-building and machine-tool sectors. State-owned enterprises account for more than 67% of urban employment and 65% of the national capital. Since the reform, they have absorbed more than 70% of the nation’s fixed capital investments.

When the Chinese leadership embarked on the reform process, it was clear that the reform of the state-owned industry would pose a formidable problem with potentially major social complications. In accordance with Deng Xiaoping’s maxim, “Reform must never separate from development,” the Chinese government adopted a strategy completely opposite to that of eastern Europe and the former Soviet Union, where reform was accompanied from the very beginning with a dramatic collapse in production. Instead, the Chinese reformers opted to launch a process of rapid, sustained economic expansion *first*, without major restructuring of the state industry, in order *thereafter* to attack the problem of deep reform of the state-owned industry from a position of strength. In the meantime, an extraordinary growth of new enterprises of all sorts has occurred, which has already played a decisive role in absorbing large amounts of (especially) the rural labor force. According to some Chinese estimates from the beginning of the reform until 1993, some 220 million new jobs were created in the country (many of them in township enterprises), which is more than the total number of jobs created in the entire 30 years before the reform and opening-up policy. This gives reason for some optimism regarding the possibility of re-employing “redundant labor” which is slated to be eliminated in the rationalization of state-owned industry.

This wise strategy of postponing the restructuring of state-owned industry, was adopted at the calculable expense of creating or exacerbating problems, such as large debt accumulations in the state sector due to the issuance of bank credits to cover the operating deficits of loss-making industries. But it is important to understand, that the mere statistics of losses of state-owned industries in China, present a very distorted picture of the real situation and prospects of these industries. In actuality, there are many diverse reasons for the losses of state-owned enterprises, some of which have nothing to do with their real physical performance per se.

In the period of the planned economy, industrial enterprises were responsible not only for production, but also for nearly the entirety of social services for employees and their families, often including operation of hospitals and clinics,

housing, kindergartens and schools, canteens, libraries, and provision of pensions for retired workers. The older the enterprise, the larger the number of retired employees to whom it had to provide support. Also, the enterprises did not decide on the number of employees; the state assigned labor to the enterprises, which (generally speaking) had no right to dismiss employees for whom they had no use. As a result, the superficial appearance of “full employment” was obtained at the expense of a high redundancy in the labor force nominally employed by the enterprises—often as much as 30% or more.

Although state-owned enterprises were given greater freedom after 1978, they by and large have continued to carry a heavy burden of social services and redundant employees, even if this meant operating at a continual loss. In fact, given the absence of a centralized social welfare and social security system—the task of building up such a system is only now being taken up by the government in earnest—there was no economically or politically acceptable alternative. Thus, state banks were basically ordered to issue credits to loss-making enterprises, in order to keep them running, and without any real prospect of having those debts paid back. In a sense, these are not real debts, but hidden subsidies which took the place of social welfare and social service payments by the state.

Unfortunately, not all of the problems of state-owned industry are simply due to the burden of social overhead and redundant workers. There are also severe problems of mismanagement on the one side, and excessive age and technological obsolescence of much of the capital equipment and production structure on the other—a situation of obsolescence which has resulted, often over a very long time, from a *chronic deficit in investment*.

To get a more direct sense of the difficulties of the state-owned industry, it may be useful to quote from one of a large number of articles dealing with this issue, which have appeared in Chinese management publications last year:

“The Beijing electron tube factory, called the 774 factory, built in the 1960s, was at the time the largest plant in all of Asia and a flagship for our country’s electronics sector. For decades, this plant made an enormous contribution to the development of our nation’s electronics industry; our first integrated electric circuits, our first color television tube, etc., were all created here. The backbone of the electronics industry of the whole country was built up with the help and support of the 774 factory. But now, the original equipment investment is aged, and this great factory has no money to carry out modernization. So, while other electronics enterprises are thriving, the 774 plant has been quietly running downhill.

“We can’t just smash and destroy such things. In the West there are many enterprises which are 100, 200 or even 300 years old. Do we or don’t we want to foster our national economy and our state industry? That is the big question facing the Chinese people.

“Among our state-owned industry there are some model

national enterprises, such as the Tianjin Bohai Chemical Group, founded by our nation’s famous chemist Hou De Bang. It has a century of history; its Red Triangle Brand Soda Ash has conquered the domestic and foreign markets, and is a really famous international brand name. This plant is a big exporter for Tianjin. Don’t we have reason to think that similar enterprises can be improved?

“In the case of 774 factory, the reason for its decline was negligence. But in some reasons the decline of enterprises was unavoidable.

“For example, the northern heavy industry base in Qiqihar, which sprouted up during the 1950s period of good relations with the Soviet Union, in the beginning period after the founding of the People’s Republic. Based on Soviet capital investments, an enormous heavy industry was built up, for example: the first heavy machinery plant, the first machine-tool plant, the second machine-tool plant, the Qiqihar steel plant, the papermaking plant, etc. This was a relatively rich industrial base, but by the 1960s, due to the change in China-U.S.S.R. relations, Qiqihar did not become a priority area for national investment. As a result of long-term insufficiency of investment, the industrial equipment has become seriously obsolescent. Today, 50% of the machinery in this city’s industry has an age of more than 25 years.

“As another example, in Liaoning Province, a long-standing base for large-scale heavy industry, 62% of the heavy industry was built up in the 1950s. In these industries, 36% of the machinery and equipment was installed before the 1970s. Another old industrial base, Sichuan’s Chongqing city, has a similar situation.

“Among our state-owned enterprises, not a few have been affected by strategic-geographical policies. In the 1960s, for strategic reasons, a huge amount of industry was moved into remote regions. In respect to the conditions of reform and modernization, the problems of the industries of those regions cannot be compared with those of the enterprises located near the coast.

“Apart from this, there is another specific feature of the heavy burden carried by the state-owned industry. In an average state-owned industry, one-third of the employees are surplus workers.

“That means, that of approximately 80 million industrial workers, 20-30 million belong to the category of redundant employment. Every year, the state sector must pay more than 100 billion yuan in salaries to redundant personnel.

“In 1995, the total interest payments of medium and large state-owned enterprises reached 86.9 billion yuan, corresponding to 128% of the total profits. In the first half of 1996, state-owned enterprises’ expenditures for interest payments grew by 21%, reaching 60 billion yuan. The heavy interest burden of state-owned enterprises meant, that their profit was eaten up by interest payments.

“There is much larger investment into new projects, than into renewing old investments.

“In the first five months of 1996, the proportion of fixed investment that went into basic infrastructure construction was 55%, into real estate 21%, into other areas 5%. But the investment into modernization was just 19% of the total.”

Three crucial years

The Chinese leadership has chosen an extraordinarily short interval of three years (beginning 1998) as the time-period to push through *decisive measures* of rationalizing and restructuring the state-owned industry. Evidently, the intention is to make as clean a break as possible with the vicious circle of obsolescence, inefficiency, chronic losses, lack of investment, and ballooning of debt. Judging that this cannot be accomplished without causing a significant crisis—including the release of many millions of redundant workers and the closing of many factories judged to be hopeless cases—the strategy is to get through the most painful part of the crisis as quickly as possible, concentrating all available efforts on alleviating and controlling the negative social effects.

It is much too early, in our view, to pass judgment on this gigantic undertaking, which, perhaps even more than the earlier phases of the reform, is not following a rigid, mechanistic line, but involves a great deal of improvisation and day-to-day decision-making. It is, however, worth mentioning some points which have clearly emerged as important elements of the Chinese strategy:

1. “*Grasping the few while releasing the many.*” As we indicated above, the situation of state-owned industry differs very greatly from case to case—ranging from virtual “basket cases” which really deserve to be shut down, to well-managed modern enterprises which are already fully competitive on the world market. Generally speaking, apart from some heavy industries suffering from extreme obsolescence, the bulk of the losses are located in the smaller enterprises. Rather than simply leaving enterprises indiscriminantly to “sink or swim” regardless of their role in the regional and national economy, the Chinese government has adopted a dirigistic policy of “grabbing the few while releasing the many.” We understand this to mean, that the government will directly support the restructuring and technological modernization of selected, strategic industries (especially larger ones), while withdrawing its role in the management of many other (particularly smaller enterprises).

I should stress, that this is not a policy of wholesale, indiscriminant privatization of state-owned industry, as wrongly implied by some Western press reports of the 15th Party Congress in September 1997. What was decided, was on the one hand to carry out far-reaching changes in the management structure of the state-owned industry, freeing it to a large extent from government bureaucratic structures and providing for a much greater degree of independence and responsibility in day-to-day decisions. On the other hand, it has been decided to gradually transform the ownership structure of many enterprises, from centralized state ownership in the strict sense, to a mixed form of “public ownership” which can

include the sales of shares to employees and possibly others (the so-called “joint shareholding system”).

Part of the motivation for this change in ownership structure, is the desire not only to attract additional foreign investment, but also to mobilize the enormous private savings of the Chinese population—estimated at approximately 3 trillion RMB—for the purpose of recapitalizing the industry and financing the urgently needed process of modernization and infrastructural development.

In fact, the task of drawing in new capital, and the task of restructuring finances and management, are inseparable from each other. Obviously, debt reorganization and reform of ownership and management structures, cannot by themselves provide a substitute for the new physical investments in basic industrial sectors that are urgently required for modernization. Without solving the debt, social overhead, and management structure problems, however, new investments cannot be used effectively, but will tend to disappear into a “black hole.”

2. *The “re-employment project” and establishment of a social security system.* Out of an official total employed workforce of 689 million (1995), a reduction of 20-30 million in state-owned enterprises might seem tolerable at first glance, at least for a limited period. It must be emphasized, however, that the unemployment caused by release of redundant workers and rationalization of state-owned industry is not distributed evenly over the country, but is mainly concentrated in certain industrial centers and branches of industry, where the reform can have dramatic negative consequences. The main areas of threatened mass unemployment include the textile and light industry, machine-building, electronics, coal, forestry, and military enterprises, especially in the Northwest, Northeast, and Southwest regions. For this and other reasons, the government recognizes that the reform can only be carried out successfully, if a large percentage of the workers can be provided with new jobs. Two things are key to achieving that: a) increasing the demand for labor by stimulating the overall expansion of the economy and particularly of the private sector, which has accounted for 95% of new employment in recent years, as well as directly providing additional employment through infrastructure and public works projects; b) creating social institutions and facilities which assist workers in finding new employment (a novelty in China), improving their education, as well as building up a social system including unemployment and health insurance. The latter is by itself a gigantic undertaking, whose completion will certainly extend much beyond the next three years.

3. *The “New Deal”:* *maintaining a high rate of growth through the three decisive years and beyond.* We have already mentioned how the Chinese government, partly in response to the Southeast Asian financial crisis and the unpleasant prospect of a possible collapse of exports and foreign investment at this crucial moment in China’s reform, has announced a huge increase in the overall level of investment in China’s economy over the coming three years. Government officials

have cited figures between \$750 billion and \$1,000 billion, and emphasized that a large part of the increased investment — which includes both public and private spending — will go to infrastructure and housing construction. The idea is to exploit the vast potential of the internal market of China in order to maintain a high rate of growth in the national economy. A conference speech given earlier this year on the employment problem by an official of the State Planning Commission reflected the concern for employment and social stability, which is a major motivation of the “New Deal” policy:

“China is in a special historical phase of her reform and development in 1998. Whether the employment problem is properly handled or not will directly affect the course of the reform and the stability in the society. . . . At present, China needs a stable social environment to carry out development and reform. . . . As the speed of economic growth is of decisive significance to increasing job opportunities, the determination of the growth rate of China’s GDP in the coming three years has the utmost important influence on whether the employment problem can be solved properly. . . . The planned GDP growth rate in 1998 cannot be lower than 8%. . . . We propose that the real GDP growth in the coming three years should be 9%, 10%, and 11%, respectively.”

The same speaker reflected, at the same time, the concern that merely stimulating GDP growth per se might not only produce the desired result of increased employment, but could also relaunch growth of the “bubble economy” and the endemic tendency for wasteful, purely linear expansion of production. This defect, inherent in pure “Keynsian methods,” has attracted growing attention among Chinese economists. The general answer is clear, namely, that a healthy expansion of China’s economy requires a dirigistic approach on the part of the government, to ensure that investment is channeled in directions which increase the productivity of the economy as a whole.

Housing construction has been emphasized as a crucial component of the “Chinese New Deal.” This includes not only improvement in the quality of the (often rather cramped) apartments in existing cities, but also new urban construction. A healthy urbanization process in the interior of the country requires the expansion of towns and villages into smaller cities, which can absorb population from the surrounding rural areas and provide useful employment. This urban construction, which includes, of course, not only housing per se, but also the transport, energy, communications, and water infrastructure needed for an efficient city, itself represents a major factor for increased employment in the period immediately ahead.

Big country, big problems, big promise

Reforming the state-owned industries while limiting unemployment, solving the accumulation of bad debts in the banking system, alleviating the growing water crisis and other severe “environmental” problems, remedying the economic disparities between interior and coastal regions, combatting

corruption, upgrading education — reflecting on the variety and gigantic scale of China’s problems, some observers tend to take a guarded or even pessimistic view of the country’s future.

Such a pessimistic view, however, fails to take the all-decisive “human factor” into account. The last 20 years of economic reform have been an intensive problem-solving process involving the leadership of the country and large sections of the population, top-down. It is often stressed in China, that there is no direct model or clear precedent for the process going on now — neither in China’s own history, nor in the West. And this is clearly true to a large extent. This daily activity of problem-solving, improvisation, and experiment, has helped to bring forward a layer of leaders at various levels of the economy, whose seriousness and sophistication are far beyond what predominates in most of the rest of the world at this juncture. To put it bluntly: China’s leadership has demonstrated that it is serious about solving problems, while the ruling elites of most other nations spend most of their time running away from them.

During President Jiang Zemin’s visit to the United States last October, one of the most significant events was a speech at Harvard University, in which Jiang stressed the importance of Classical Chinese culture and of China’s unbroken history going back 5,000 years (see *EIR*, Nov. 28, 1997). While largely ignored by the Western press, that speech reflected *profound changes* which have been occurring in the thinking of China’s political elite.

Faced with the unprecedented challenges of bringing this ancient nation with its present 1.2 billion people into the 21st century, amidst a world full of crisis and uncertainty, China’s elites want to revive the most positive traditions of Classical Chinese philosophy, science, literature, and art, and to create a kind of *cultural renaissance* in the country. Although the desire to protect China’s youth from the sick “rock-sex-drugs counterculture” from the West is a major included consideration, this cultural revival is not at all anti-Western. The well-publicized fact, that Jiang Zemin personally loves Western Classical music (he plays Mozart and Beethoven on the piano in his spare time), and can recite poems by Shakespeare, is symptomatic of a widespread attitude among the Chinese elite, which deeply admires the scientific and artistic accomplishments of European culture and wants China to assimilate those positive elements. It is a shocking irony of history, that China should reach out for the best traditions of the West at exactly the same time, that Western nations seem to have turned their back on them.

In the last analysis, physical economy is a function of culture. Without taking into account the powerful revival of *Confucian cultural optimism* in China, it is impossible to understand the success of China’s reform and development since 1978. That same cultural optimism, to the extent it finds a positive echo in the world at large, gives us confidence that China will be able to solve its most urgent problems, and become a leading nation of the world in the 21st century.

New 'Diana wars' in Britain put focus on LaRouche

by Jeffrey Steinberg

On June 4, the London *Daily Telegraph*, the flagship publication of the British monarchy and the Club of the Isles' Hollinger Corp., published a crass slander against Lyndon LaRouche, headlined "U.S. Cult Is Source of Theories." The article charged that LaRouche, *EIR*, and the *New Federalist* newspaper were all behind a "Diana conspiracy industry," and that LaRouche, in league with London-based billionaire Mohamed Al Fayed, was "accusing the Queen of ordering the assassination of Diana, Princess of Wales."

Apart from the fact that the article was pure fiction, there were two significant things about the story — which accompanied a much longer article that trashed a British Independent Television (ITV) documentary, entitled "Diana: The Secrets Behind the Crash," which had aired the previous night, and which had been followed by a live televised debate on the Princess's death:

First, the *Daily Telegraph* smear was authored by Ambrose Evans-Pritchard, an avowed British Secret Intelligence Service (MI6) stringer, who spent from late 1992 through the spring of 1997 in Washington, D.C. orchestrating a similar slander campaign against President Bill Clinton. Allowing Evans-Pritchard's by-line to appear on the "icebox" slander of LaRouche was a blunder of strategic significance, which underscored the truth behind LaRouche's charge that all of President Clinton's enemies, including in the upper echelons of the British oligarchy, are also enemies of LaRouche.

The blunder also underscored the fact that there is a "battle royal" under way within the British ruling class, which goes far beyond the issue of the death of Princess Diana. The battle touches on matters of global geopolitics, and how the British oligarchy intends to survive the worst, systemic financial breakdown crisis in modern history.

The "Torygraph" slander also marked a decisive break in the Club of the Isles' policy of keeping LaRouche's name out of print in Britain. It has been long-recognized by the City of London-centered financier oligarchical grouping headed



Princess Diana enters the Ritz Hotel in Paris on Aug. 30, 1997, the evening before her murder. Inset: British scribbler Ambrose Evans-Pritchard, known for his role in the “Get Clinton” campaign, now accuses Lyndon LaRouche of masterminding a “Diana conspiracy industry.”

by the Royal Consort, Prince Philip, that LaRouche and *EIR* have been a powerful factor in exposing their dirty machinations worldwide, and have also been an important contributing factor in an eruption of political warfare against the Windsors, even from among the British elites.

The LaRouche role in the Windsors’ troubles came to the surface in 1994, when *EIR* published “The Coming Fall of the House of Windsor,” a *Special Report* exposing the role of Prince Philip and his World Wildlife Fund (WWF, now the World Wide Fund for Nature), in triggering the worst genocide in modern history in the Great Lakes region of Africa. Even as *EIR*’s exposés of the Windsors circulated throughout the world diplomatic community and among factions of the British establishment, with rare exceptions, the name “LaRouche” was banned from the British press.

All that changed, beginning with the June 4 Evans-Pritchard diatribe. The article not only accused LaRouche and *EIR* of heading the “conspiracy industry,” and of accusing “the Queen of being the world’s foremost drug dealer.” But also, it linked LaRouche to Mohamed Al Fayed, Harrods department store owner and the father of the late Dodi Fayed, in a campaign, Evans-Pritchard wrote, “aimed at discrediting Tiny Rowland, Mr. Al Fayed’s longtime business rival, . . . according to Francesca Pollard, a former operative for the Fayed security machine.” As *EIR* revealed in its 1993 unauthorized biography of Rowland, Pollard, whose family was robbed of its fortune by Rowland, was threatened and then paid off by Rowland, to be a source of trash against Al Fayed. Following

the Aug. 31, 1997 car crash in Paris that claimed the life of Princess Diana, Dodi Fayed, and their driver, Henri Paul, Rowland was deployed by the British royal family to lead a slander and harassment campaign aimed at silencing Mohamed Al Fayed, who has stated publicly that he is “99.9% certain” that Diana and Dodi were the victims of a murder plot.

Battle of the documentaries

The trigger for the slanders against LaRouche was the airing of the ITV documentary on the evening of June 3, followed by a live TV debate, which featured this author. The ITV documentary provided dramatic new evidence supporting the case that Diana and Dodi were murdered (see “New Holes in Cover-Up of Diana Murder Plot,” *EIR*, June 12, 1998), and highlighted several investigative leads that were first published in *EIR*, including the possibility that driver Paul was blinded by an anti-personnel laser.

During the live TV round-table debate, this author discussed Princess Diana’s decade-long war with the House of Windsor, including the impact of her November 1995 BBC Panorama interview, in which she charged that her estranged husband, Prince Charles, was unfit to be King; and, the reaction of the establishment to her actions, which amounted to a collective shriek, “Off with her head!” Rowland’s personal involvement in the campaign to cover up the truth about the Paris crash, and to destroy Mohamed Al Fayed, was also aired, much to the chagrin of the producer and host of a



Author Jeffrey Steinberg (seated at right) told a British television audience on June 3 that he “could not rule out the possibility” that Prince Philip was involved in the murder of Princess Diana.

Channel 4 “Dispatches” documentary on the Diana death that aired the following night. Channel 4 tried to dismiss as fantasy every piece of evidence refuting the “drunk driver” theory.

The Channel 4 “Dispatches” program included a slander of this author and *EIR* that was even more explicit on the question of Prince Philip. Although this author was interviewed on camera for more than two hours by Channel 4 host Martyn Gregory, less than one minute of that interview was shown on the hour-long “Dispatches” diatribe. And, that brief segment waxed hysterical about *EIR*’s refusal to “rule out” the possibility that Prince Philip ordered the murder of Diana and Dodi. Indeed, British press accounts of the relationship between Prince Philip and Lady Diana, particularly during the brief period of her relationship with Dodi Fayed, revealed that the Royal Consort was in a constant blind rage over Diana’s public disdain for the Windsors, and particularly her implicit challenge to their legitimacy on the British throne.

Gregory was given several pages in the *Sunday Telegraph* on June 7, to continue denouncing LaRouche, *EIR*, and Al Fayed. In an article regurgitating the “Dispatches” disinformation, Gregory wrote: “The numerous hares Mohamed Fayed has set running in the colours of sundry conspiracy theories are typified by Geoffrey [sic] Steinberg, chief reporter of *Executive Intelligence Review*, a small-circulation American magazine that specializes in conspiracy theories. He was yet another guest on the side of the motley crew supporting ITV’s Wednesday night programme.

“This is the man who told Dispatches he ‘could not rule out the possibility’ that Prince Philip was involved in the ‘murder of Diana.’ We decided not to take Steinberg seriously at all.”

Defending ‘Mr. Big’

Not so for MI5, another British intelligence agency. On June 10, Francis Wheen, a writer for MI5’s favorite leak sheet, the political satire magazine *Private Eye*, penned another anti-LaRouche diatribe, in the London *Guardian*. Wheen, who had published smears against LaRouche in 1996, fixated on *EIR*’s targetting of Prince Philip, whom Wheen affectionately referred to as “Mr. Big.” “Many weird characters enjoyed their 15 minutes of fame during last week’s flurry of TV programmes about Princess Diana,” Wheen began, “but none was weirder than Jeffrey Steinberg, who appeared on Wednesday night’s ‘studio debate’ and again on Channel 4’s Dispatches the next evening. There was, he admitted, ‘no smoking-gun proof’ that Prince Philip ordered British intelligence to assassinate the Princess; nevertheless, ‘I can’t rule it out in all honesty.’ ”

Wheen complained, “So who is he? For some reason, viewers were not informed that the grand-sounding *Executive Intelligence Review* is in fact the weekly propaganda magazine of Lyndon H. LaRouche.” Wheen almost got it right, when he noted, “*Executive Intelligence Review* has supported Al Fayed in his vendetta against Tiny Rowland and Lonrho; and when Michael Howard refused Al Fayed’s application for British citizenship, LaRouche published a defamatory article

about the family connection between Howard and Harold Landy, the former chairman of a Lonrho subsidiary.” When then digressed into the ID-format slander that was perfected by the mid-1980s dirty tricks slander salon, run by Wall Street Anglophile spook banker John Train, as part of the “Get LaRouche” task force of the U.S. Justice Department and private agencies that framed up and railroaded LaRouche to prison. When recited the litany of smears: LaRouche says “the Queen runs an international cocaine smuggling cartel,” that “Henry Kissinger is a communist agent,” and, interestingly, that “the Italian banker Roberto Calvi was murdered by the Duke of Kent.” (Calvi was himself a member of the extended royal family.)

International terrorism

When then touched on another sore spot of the House of Windsor and Club of the Isles: the British hand in sponsoring and harboring international terrorism. He tried to twist *EIR*’s exposé of London’s role in safe-housing dozens of major terrorist organizations, a fact the U.S. State Department and the CIA have acknowledged in written documents. “In recent years,” When wrote, “LaRouche and Steinberg have been pursuing another ‘unique’ theory — that ‘international terrorism’ is masterminded by none other than Lord [William] Rees-Mogg and the *Daily Telegraph* reporter Ambrose Evans-Pritchard. . . . LaRouche claims [that] Rees-Mogg and Evans-Pritchard are part of a ‘powerful London-centered apparatus that declared war on the United States immediately after the inauguration of President Clinton.’ Whitewater, Troopergate, Paula Jones, Monica Lewinsky — all these scandals can be traced back to our double-barreled desperadoes. . . . But Rees-Mogg and Evans-Pritchard are merely servants of the ‘powerful London-centered apparatus.’ The Mr. Big whose orders they obey is Prince Philip. . . . The intention, according to LaRouche, is to discredit, and destabilise the U.S. until it is forced to become a British colony once again, thus taking the House of Windsor another giant stride on its road to world domination.”

When continued, “Only one person in Britain was powerful enough to thwart the conspiracy — Princess Diana, who had ‘declared war’ on the royal family in her Panorama interview. And so she had to be killed.”

When ended on a curious, slightly ominous, note: “This alliance between Al Fayed and Lyndon LaRouche seems risky, to say the least. Why should a prominent public figure aid and abet such an unscrupulous fantasy-merchant? If LaRouche doesn’t wish to sully his reputation, he must disown Al Fayed forthwith,” When wrote.

A half-dozen other slanders followed the *Guardian* article, in the *Scotsman*, on BBC-4 Radio, and even in the Danish press. One factor that clearly got the royals’ blood boiling was that, according to the major British TV rating service, 12.5 million Britons watched the ITV documentary, and most

of them also watched the studio debate that followed the evening news. On June 4, German national television aired the entire ITV broadcast, and major German dailies published lengthy excerpts from the transcript. In contrast, fewer than 3 million British viewers watched the Channel 4 smear the following evening. And, a *Mirror* newspaper poll, published on June 7, suggested that an overwhelming majority of Britons are convinced that there was more to the death of Diana than a traffic accident.

The strategic battle

As *EIR* has said from day one, the death of Princess Diana is the scandal that could hasten the fall of the House of Windsor. But, the future of the Club of the Isles oligarchy hangs in the balance today in a number of ways. The probe in Paris of Diana’s death, if it turns up compelling evidence of a murder, or even of aggravated manslaughter caused by a paparazzi mob notorious for its links to British intelligence and the Crown apparatus, would certainly bring down both the Windsors and the current Socialist government in France, which also is deeply implicated in the crash and the cover-up.

On other fronts, the British establishment is torn over how to deal with the onrush of the financial collapse. Prince Philip and his circle have no compunctions about throwing the world into decades of chaos and genocide, in order to retain oligarchical control. But other, less insane forces within the City of London financial elite are apparently asking, “What do we get out of such chaos and destruction?” and may be seeking a new political alliance, perhaps with the United States, and sane forces on the continent who are opposed to the suicidal Maastricht Treaty.

Other issues that are causing divisions among the British elites include Britain’s stance on the European Monetary Union, and the euro single currency. Furthermore, factions on the continent that share Prince Philip’s impulse to play “chaos warfare,” may be pressing for a new assault on the Asian currencies, including the Japanese yen, through the major continental banks and their offshore hedge funds, even though such a move at this moment would almost certainly trigger a global financial explosion with unpredictable consequences.

Within the extended European oligarchy, which has, for decades, been under the boot of Prince Philip’s Club of the Isles, there is intensive in-fighting and factional warfare, adding further to the crisis atmosphere spreading across Eurasia. The common point of agreement among the “chaos” factions within the British and continental oligarchies, is that the power of the United States, as the pillar of the nation-state system, must be destroyed in the immediate period ahead, lest LaRouche’s ideas for a nation-state-centered New Bretton Woods solution to the present global mess, be adopted, along with LaRouche’s vision for a Eurasian Land-Bridge plan of global economic reconstruction.

Ambrose Evans-Pritchard: the hyphenated hoaxster

by Edward Spannaus

It's very difficult for a journalist to write that type of book about their own country; they can't continue to operate and function, as a journalist. If I did this in London, about the British power structure, I really couldn't continue to work there.

— Ambrose Evans-Pritchard,
C-SPAN, Oct. 26, 1997

Smear artists are not always down-on-their-luck hacks. Sometimes they hail from Oxford, take high tea, and have hyphenated last names, like Ambrose Evans-Pritchard, Washington correspondent for the London *Sunday Telegraph*.

— James Retter, *Anatomy of a Scandal*

British Intelligence asset Ambrose Evans-Pritchard was deployed to the United States at the end of 1992, following the election of Bill Clinton, under the cover of serving as the Washington correspondent for the *Sunday Telegraph* of London. Following in the tradition of his father, the famous anthropologist Edward Evan Evans-Pritchard, Ambrose came to the United States to profile the U.S. population—not only to study the citizenry, but also to determine how to mobilize the “indigenous” population against its own government.

By the time Pritchard left the United States, about a year ago, he was reduced to publicly defending himself against *EIR*'s charges. “Let me state for the record that I was not sent to Washington as part of a British government plot to destabilize the Clinton administration in revenge for U.S. meddling in Ulster,” Pritchard wrote in the April 20, 1997 *Sunday Telegraph*. “Or at least, I don't think I was.”

“Contrary to assertions made in a Congressional hearing,” he continued, referring to testimony submitted by *EIR* in 1994, “I have never worked for British military intelligence, or MI5, or MI6, or for that matter MI7.5—the fabled Welsh branch!”

In the same article, entitled “Goodbye, Good Riddance,” Pritchard also complained that the White House had “singled me out for attack in their report on the media ‘food chain’ assault against the Clintons,” even describing the *Sunday*

Telegraph as a “British tabloid”—which it certainly is in spirit, if not in format. Pritchard also whined about a little note in *George* magazine entitled “Cheerio, Chump!” in which a White House source was quoted saying that Pritchard's tenure here had been “another British invasion we're glad is over.”

Breaking the ‘special relationship’

Speaking of “U.S. meddling in Ulster,” Hollinger's attitude came across clearly in the wake of the Feb. 26, 1993 World Trade Center bombing in New York City. On Feb. 28, the *Daily Telegraph* gloated: “One good thing might come out of it. It might teach Mr. Clinton that terrorism is no longer something which happens in other countries, and about which it is therefore safe for American Presidents and Presidential candidates to posture. . . . He might give up posturing about Northern Ireland.”

Throughout 1993, before the Clinton scandals really took off, Ambrose Evans-Pritchard's Sunday columns invariably attacked the new Clinton administration, most notably on foreign policy matters. Already by mid-year, Evans-Pritchard was showing concern that Clinton might break with the British in a way no U.S. President had done for decades. “The Clinton administration is looking to Germany to become the anchor of American strategic interests in Europe, relegating Britain to the status of a secondary ally,” Pritchard wrote in a column entitled “Clinton Woos Bonn for a Special Relationship,” published on June 27, 1993. Among other things, Pritchard accused Clinton and German Chancellor Helmut Kohl of working “behind the backs” of the European Community, in calling for an end to the arms embargo against Bosnia.

By the end of Clinton's first year in office, the British had more to worry about: There were signs that the United States was preparing to break with International Monetary Fund policies. Clinton administration officials were attacking the “shock therapy” being applied to Russia, and calling for “less shock, more therapy.”

From the standpoint of the British oligarchy, things went from bad to worse during early 1994. When Clinton invited Sinn Fein leader Gerry Adams to the White House in March, the Brits went ballistic. On March 19, the *Sunday Telegraph*

screamed, "The United States is no friend of Britain." It charged that Clinton was seeking the breakup of the United Kingdom. When Clinton stood at the Brandenburg Gate in Berlin in July, and called for a new German-American partnership, the British accused Clinton of betraying the mother country and killing off the "special relationship" between the United States and Great Britain. "Now Who's Got a Very Special Relationship?" asked one headline in the *Sunday Telegraph* on July 17, 1994, right after Clinton's visit to Germany.

That wasn't all the Hollinger Corp. had to say in response to Clinton's foreign policy initiatives. The front page of the July 17 issue led with a story accusing President Clinton of using illegal drugs in the 1970s and '80s; the story, naturally, ran under the by-line of Ambrose Evans-Pritchard.

But, we get ahead of ourselves.

A British scandal-monger

Evans-Pritchard jumped into the scandal fray as early as July 25, 1993, a few days after the death of White House Deputy Legal Counsel Vincent Foster. In an article entitled, "Death in Clinton Clique," Evans-Pritchard wrote that Foster's death "has set off a flurry of conspiracy theories," and that some people think it was murder. Evans-Pritchard commented on Foster's role in Travelgate, and he darkly raised the question of whether Foster "had been drawn ineluctably into something that had got out of hand."

There was no reference to "Whitewater" in the article, which was hardly on anybody's radar screen at the time. The story of the failed Arkansas real estate deal had popped up during the Presidential primaries in March 1992, through an article by the *New York Times*'s Jeff Gerth.

The Whitewater hoax got its rebirth from an event which occurred the same day as the death of Vincent Foster: an FBI raid on the offices of David Hale, a low-level municipal judge in Little Rock, who was under investigation for fraudulent dealings with the Small Business Administration. Hale tried to peddle a story implicating Bill Clinton, James McDougal, and then-Gov. Jim Guy Tucker, but the local U.S. Attorney was not interested. Hale was indicted in September, and it was only after the appointment of the first Whitewater independent counsel in early 1994 that he was able to cut a deal. By this time, Hale had hooked up with some of Clinton's worst enemies. He was put into the Federal Witness Protection Program and relocated to Louisiana, from where he commuted in the company of FBI agents both to Little Rock and to Hot Springs, where he regularly met with paid agents of Richard Mellon Scaife and the *American Spectator*. Hale became a regular conduit between independent counsel Kenneth Starr's grand jury investigation in Little Rock, and the *American Spectator* and the *Wall Street Journal*.

At the same time, a Clinton-hating bureaucrat in the Resolution Trust Corp., Jean Lewis, was desperately trying to cook up a criminal case against the Clintons around the Madison

Guaranty Savings & Loan case. She filed a number of referrals to the Justice Department seeking criminal charges, and then apparently leaked the referrals to the *New York Times* and the *Washington Post*.

Predictably, on Nov. 7, the *Sunday Telegraph* and Evans-Pritchard jumped in, with a piece entitled "Land Slips Away Beneath Clinton House of Cards." Evans-Pritchard argued that Clinton's election in 1992 was "an anomaly," that liberalism, i.e., "permissive quasi-socialism," is dead, and that "the self-righteous baby-boom liberalism of the Clintons is not even honest"; his evidence was the *Washington Post* articles of the previous week, alleging that there were Federal investigations into the Clintons' real estate deals.

The 'Troopergate' swindle

In late December, the *American Spectator* broke the "Troopergate" story, of Clinton's alleged sexual dalliances. This fable launched a media frenzy which revived the Whitewater real estate stories, with the *New York Times* and *Washington Post* both reporting that Whitewater files had been removed from Foster's office on the night of his death. All this culminated in the appointment of a Whitewater independent counsel on Jan. 20, 1994.

In recent months, the "Troopergate" story has been shown to have been a total fraud. One of the original sources, Ronnie Anderson, said he'd been offered a million dollars by enemies of Clinton to tell second- and third-hand stories to *American Spectator* writer David Brock. Anderson said in his affidavit in the Paula Jones case, that "the stories that were provided were nothing more than old fish tales, with little, if any, basis in fact."

Another of the sources, Danny Ferguson, told associates at the time that he was considering extorting money from Clinton, in exchange for silence. He also said that his fellow troopers were exaggerating what they claimed to know. Later, in an affidavit filed in the Paula Jones case, Ferguson said of Clinton: "I don't know that he fooled around with anybody." Two other troopers, Roger Perry and Larry Patterson, later took money from an organization tied to both televangelist Jerry Falwell and Richard Mellon Scaife.

President Clinton's lawyer Robert Bennett declared on national television on March 15 of this year that the troopers, when their depositions were taken, "could not identify a single woman, a single incident where they could say that the President, or then the Governor, had a sexual relationship with any of these women."

The author of the original "Troopergate" story, David Brock, recently repudiated that article in a piece in the April 1998 issue of *Esquire*, apologizing to President Clinton and acknowledging that he had, along with enemies of Clinton, "conspired to damage you and your Presidency." Brock admitted: "The troopers were greedy and had slimy motives, and I knew it."

British or American Spectator?

But it was from the fabricated and now discredited “Troopergate” story, with its fleeting reference to a “Paula,” that Ambrose jumped into a situation in which he made his enduring black mark on American history: the Paula Jones case, which gave rise directly to Kenneth Starr’s sex-and-perjury inquisition against the President.

It was not fortuitous. In the *American Spectator* magazine, Pritchard found some of his closest American soul-mates.

“There has always been a strong British connection to the *American Spectator*,” boasted the *Sunday Telegraph* on Feb. 13, 1994, in an article praising the “Troopergate” story. “The present Washington correspondent, Tom Bethell, is English, and Mr. [Paul] Johnson and Sir Peregrine [Worsthorne] are on the editorial board.”

Two days earlier, the *American Spectator*’s editor-in-chief, Emmett Tyrrell, had written: “Much more so than the American media, the British media are alive with reports on the Clintons’ scandals; and Mr. Evans-Pritchard, who is equal

parts scholar, journalist, and adventurer, has been particularly tireless in examining those scandals.”

It was recently disclosed that, when Tyrrell was attempting to justify the use of tax-exempt Scaife funds to pay for part of his home and other personal expenses, he listed Evans-Pritchard as one of a number of “frequent visitors” to his McLean, Virginia house, along with Starr’s longtime friend Theodore Olson.

Tabloid trickery

On Jan. 23, 1994, Evans-Pritchard scored his first “exclusive” scandal story, with a front-page *Sunday Telegraph* spread about a former Arkansas beauty queen who claimed that Clinton had threatened to maim and kill her. Headlined “‘I Was Threatened After Clinton Affair,’” the story, concerning Sally Perdue, quickly made its way across the Atlantic into the *Washington Times* and other U.S. media outlets. By Feb. 6, 1994, Evans-Pritchard was in Little Rock, predicting that Clinton would be forced out of office by the end of the

The ‘Torygraph’: leak sheet for the Royals

As Kitty Kelley reports in her bestseller *The Royals*, members of the House of Windsor are not above instigating character assassination against their enemies, as was done in the case of Diana, Princess of Wales. Kelley states that the favorite vehicle for such royal leaks has been the Telegraph Group PLC. Writes Kelley: “The *Telegraph*, sometimes called the *Torygraph*, is the royal family’s favorite newspaper, and its editor, Max Hastings, is a close friend of Prince Andrew,” Queen Elizabeth’s favorite son.

Hastings’s wife, Rosa Monckton, has turned to the pages of the *Torygraph* to play upon her ostensible friendship with Princess Diana, to deny that Diana planned to marry Emam “Dodi” Fayed. Even before Diana’s murder, the *Daily Telegraph* had published vicious slanders of her, including a Nov. 24, 1995 article in which a crony of Prince Charles, Tory Member of Parliament Nicholas Soames, wrote that Diana had exhibited a “degree of paranoia for having gone on the BBC Panorama program to declare Prince Charles as unfit for the throne, and having accused the Royal Family of spying on her and trying to drive her out.”

The intelligence ties of the Hollinger Corporation, for which the Telegraph Group PLC is the flagship, go deep into the core of the British elite that insiders call “The Club of the Isles,” whose chief enforcer is Prince Philip. This

relationship raises a serious investigative question, as to whether the *Telegraph*’s Ambrose Evans-Pritchard was acting on instructions from the House of Windsor, in his recent poison-pen denial that Princess Diana was assassinated.

Hollinger Corporation profile

The Hollinger Corp. is a direct outgrowth of the World War II British intelligence service. It was built by Toronto-based Conservative **Conrad Black**, out of the Argus Corp., whose founder, E.P. Taylor, had been on the British War Production Board, securing arms from the United States for Britain. Argus was also part of British Security Coordinator Sir William Stephenson’s espionage network inside Canada.

Today, the Hollinger Corp. holds The Telegraph Group PLC and the *Jerusalem Post*, both purchased at exorbitant prices. The *Jerusalem Post* has been the main mouthpiece for Ariel Sharon’s “Greater Israel” wing of the Likud Party, ever since Conrad Black took it over. It has used every dirty trick in the book—including abetting Israeli Prime Minister Benjamin Netanyahu’s threats to topple President Bill Clinton—in order to blow up the Middle East peace process.

The Hollinger Corp. is also at the forefront of the Red-coat media invasion of America. It owns over 100 daily and weekly newspapers in the United States, with a heavy concentration in the Midwest, where the Hollinger flagship newspaper is the *Chicago Sun-Times*.

Apart from its attacks upon Princess Diana and Lyndon H. LaRouche, Jr., the Hollinger Corp., through such gutter

year. On it went, week after week. At the end of March, Evans-Pritchard was back in Little Rock again, producing a March 27 article, "Clinton Accused of 'Grotesque' Sex Harassment." In this article, Pritchard reported on his discussions with Paula Jones and her lawyer about her pending lawsuit against the President.

By this time, Evans-Pritchard was a rising star. The *Sunday Telegraph* headline read: "Sunday Telegraph Reporter's Revelations Put Him in America's Media Spotlight: Why America Is Turning to an Englishman for Answers." The story opened with Evans-Pritchard describing how he was appearing on U.S. radio talk shows on a daily basis.

A third article in the same issue accused Clinton of being involved in drug-running and money-laundering tied to Mena, Arkansas, and the "Iran-Contra" affair.

The following week, Pritchard reverted to attacking Clinton on foreign policy, claiming that the state of siege around the Clinton scandals was resulting in a lack of any foreign policy at all. "There is no Henry Kissinger to run foreign

journalists as Evans-Pritchard, has been in the forefront of the media feeding frenzy against the Clinton Presidency. In January 1996, the White House Counsel Office released a 331-page document, lambasting what they described as the "Communication Stream of Conspiracy Commerce," which demonstrated that the Telegraph PLC was central to a "media food chain," beginning with nutty, anti-Clinton black propagandists like Richard Mellon Scaife's *Pittsburgh Tribune Review* and thence to the so-called "mainstream press." (See "The Media Cartel That Controls What You Think," *EIR*, Jan. 17, 1997.)

A review of the Hollinger Corp.'s board and international advisory board gives a very good picture of a segment of the Club of the Isles, which uses the corporation as a convenient vehicle for their vendettas against the British monarchy's enemies. Among Hollinger's international advisory board are to be found: **Lady Margaret Thatcher of Kesteven**, who, as Prime Minister, was given a political boost by the Hollinger takeover of the Telegraph Group PLC in 1985; **Lord Peter Rupert Carrington**, who had been a founding board member and controller of Kissinger Associates, Inc., was Thatcher's Foreign Secretary, then NATO Secretary General, and who is today chairman of the Bilderberg Society (founded by Prince Philip's friend and former Nazi SS officer, Prince Bernhard of the Netherlands); and, **Sir Henry Kissinger**, Knight Commander of St. Michael and St. George, who boasted in a May 10, 1982 speech before the Royal Institute of International Affairs that, during his "incarnation in office" as U.S. National Security Adviser and then Secretary of State, he had been a British agent. — *Scott Thompson*

policy while the White House goes into a meltdown," Pritchard wrote, "which is why the hydra-headed scandal of Whitewater could prove more damaging to global stability than the Watergate scandal of 1973 and early 1974."

This was followed by more "Troopergate" stories in April, and then another absolutely fraudulent story in early May. Evans-Pritchard claimed to have interviewed Steven Love, a former bond trader with Lasater and Co. in Little Rock. Pritchard wrote: "Love now lives in a small town in Pennsylvania. He was stunned when contacted by the *Sunday Telegraph*, saying he too had been living underground for several years. 'I was used by Lasater and flushed away, my whole life destroyed. I finished up sleeping on park benches.' "

According to sources in southwest Pennsylvania contacted by this writer, the actual story is this. Love moved to Pennsylvania from Little Rock, and became the Operations and Finance Manager for Greene County, and then the director of its Redevelopment Authority. In 1990, he was implicated in a scandal involving "day-trading," i.e., speculating with county funds, with large suspected losses for employee pension funds. Love was temporarily laid off from his job, but expected to be called back, and still had substantial sums of money. The quotes from the *Sunday Telegraph* about "living underground" and his "whole life destroyed," were met with expletives of disbelief by people in the area.

Such is typical of Evans-Pritchard's stories.

Ambrose sets the time bomb

On May 1, 1994, Evans-Pritchard predicted that Paula Jones would file her lawsuit during the coming week, and he gloated that President Clinton "could conceivably be made to appear in court." A week later, after Jones had filed her suit, Evans-Pritchard acknowledged that he had had "a dozen conversations with Mrs. Jones over the past two months." He furthermore admitted that "I happened to be present at a strategy meeting last month on a boat on the Arkansas River" at which Jones's attorney "was weighing the pros and cons of legal action."

Then, on May 15, Evans-Pritchard admitted the actual motivation and purpose of the Jones suit. It doesn't "matter all that much whether Mrs. Jones ultimately wins or loses her case," he wrote. "The ticking time bomb in the lawsuit lies elsewhere, in the testimony of other witnesses."

"Put plainly," Evans-Pritchard blurted out, "the political purpose of the Jones lawsuit is to reconstruct the inner history of the Arkansas Governor's Mansion, using the legal power of discovery. In effect, the two lawyers and their staff could soon be doing the job that the American media failed to do during the election campaign and have largely failed to do since. . . . Testimony would be available to the public as court documents."

In a discussion with a journalist around this same time, Pritchard elaborated on his strategy of using discovery to

parade the troopers and others into depositions. “You know, we’re interested in finding out what kind of man Clinton is,” Pritchard declared.

In his book *The Secret Life of Bill Clinton* (Washington, D.C.: Regnery Publishing, 1997), Evans-Pritchard provided some additional details about his involvement in instigating the Jones case. He described how he happened to be on a houseboat on the Arkansas River with Jones’s first lawyer, discussing with him the need for a lawyer of national stature to join the legal team. “For a few minutes,” Pritchard wrote, “it could be said that I had become a consultant to the embryonic legal team of Paula Jones.” More important, Pritchard describes numerous conversations with Paula Jones and her husband—and even her mother—to convince them to file the lawsuit.

From Paula to Monica

Evans-Pritchard’s “ticking timebomb” in the Jones suit exploded on Jan. 21, 1998, when the Monica Lewinsky story broke in the news media. A few days later, Pritchard’s publisher, Regnery, put out a press release noting that Evans-Pritchard had predicted in his book that “the Paula Jones case would be the string that would unravel the Clinton Presidency.” Here’s how it worked.

In October 1997, Paula Jones’s lawyers, on a dragnet for any and all women who might claim to have been involved sexually with Bill Clinton, received a series of tips about a woman named “Monica.” (In late January, in a wild flight of fancy, Pritchard wrote from London that Jones had a witness list of “more than 100 women who allegedly had sexual encounters with the President.” The truth of the matter was that Jones’s lawyers, in a relentless three-year effort to find corroborating witnesses, were unable to find *any* new witnesses who would state under oath that they had had a sexual affair with Clinton.)

Shortly before that, last fall, Jones’s lawyers had gotten in contact with Pentagon employee Linda Tripp, after Tripp was mentioned in a *Newsweek* article. In November, Jones’s lawyers issued a subpoena for a deposition to Monica Lewinsky, and her deposition was scheduled for Dec. 18. The deposition was postponed, and on Jan. 7, Lewinsky’s lawyers, in an effort to prevent her from having to testify, provided an affidavit in which Lewinsky denied that she had had an affair with Clinton.

According to various accounts, in early January, Tripp went to Starr’s office and gave them 20 hours of tapes of her conversations with Lewinsky; Tripp claimed that Lewinsky had told her that President Clinton, and the President’s friend Vernon Jordan, had encouraged her to lie under oath in the Jones case.

On Jan. 16, attorneys from Starr’s office and from the Justice Department went to the special three-judge court which appoints independent counsels, and obtained authorization to expand Starr’s investigation into allegations of per-

jury and obstruction of justice in the *Jones v. Clinton* case. Starr had now officially extended his criminal investigation into the civil case brought by Jones at the instigation of Evans-Pritchard.

But already, three days before obtaining any authorization, Starr’s lawyers had wired up Tripp, so that FBI agents could record discussions between Tripp and Lewinsky in an effort to obtain evidence that Clinton was trying to get witnesses to commit perjury in the Jones case. At that point, Starr had no legal right to be involved in the Jones case, since his jurisdiction is only granted by the three-judge panel.

Starr had Tripp set up another meeting with Lewinsky for Jan. 16; Lewinsky walked right into an FBI trap, and then Starr’s lawyers and FBI agents spent about eight hours trying to intimidate Lewinsky into cooperating with Starr. And, Tripp, having spent the day with those same FBI agents and Starr prosecutors, then spent the evening briefing Jones’s lawyers about her discussions with Lewinsky and about Starr’s investigation, so that Jones’s lawyers could attempt to entrap President Clinton during his deposition scheduled for the next morning in the Jones case.

Starr’s “Whitewater” investigation, and Evans-Pritchard’s Paula Jones case, had now become one and the same thing.

Belatedly, President Clinton’s lawyers realized what kind of dirty operation was being run against him. When they filed their motion for summary judgment against Jones in early February, the President’s lawyers charged that Jones’s lawyers had spent 99% of their discovery trying to find evidence to prove Clinton’s involvement with other women, and they had completely failed to prove any of Jones’s claims.

In response to Clinton’s motion, Jones’s lawyers dumped 700 pages of irrelevant and salacious materials into the public record—giving the news media a field day, but doing nothing to advance Jones’s case.

The President’s lawyers then filed a motion to strike much of those materials. Clinton’s lawyer Robert Bennett introduced the motion by citing Evans-Pritchard’s *The Secret Life of Bill Clinton* as demonstrating “the genesis of this material.”

“In that book,” Bennett told the court, “plaintiff’s husband announced a plan to abuse the compulsory processes of the court to put a veneer of credibility on all manner of gossip, rumor, and innuendo concerning President Clinton.” Bennett then quoted the following passage from Evans-Pritchard’s book:

“In a belligerent mood, Steve [Jones] warned that he was going to use subpoena power to reconstruct the secret life of Bill Clinton. Every state trooper used by the governor to solicit women was going to be deposed under oath. ‘We’re going to get names; we’re going to get dates; we’re going to do the job that the press wouldn’t do,’ he said. ‘We’re going to go after Clinton’s medical records, the raw documents, not just opinions from doctors, . . . we’re going to find out everything.’”

Bennett then stated: "Plaintiff's recent filing is the culmination of that plan, which was executed with the help of the Rutherford Institute and plaintiff's other financial and political backers. . . . Plaintiff filed on the public record much of the irrelevant, unfounded, and inadmissible information that plaintiff collected in this case."

On April 1, the Federal court in Little Rock granted the President's summary judgment motion, and threw out Jones's suit. However, this did not stop Starr—who is still, to this day, trying to concoct a *criminal* case against the President and others, on the grounds that they either committed perjury in the frivolous, now-dismissed Paula Jones case, or that they attempted to get others to do so. It is now anticipated that these allegations will form the core of an impeachment report which Starr will submit to the House of Representatives, possibly within weeks.

The Vincent Foster 'murder plot'

The Paula Jones case was the most flagrant of the hoaxes perpetrated by Evans-Pritchard during his assignment in the "former colonies."

Pritchard also devoted a great deal of print to the Vincent Foster story, attempting to prove that Foster was murdered, and that his body was transported to Fort Marcy Park in Virginia where it was found, and that the Clinton White House then covered up the murder. Two recently published books (which will be reviewed in a coming issue of *EIR*), by authors Dan Moldea and James Retter, have thoroughly dissected the Foster case and other "scandals" perpetrated by Evans-Pritchard, Chris Ruddy, and others. A couple of examples of Pritchard's fakery around the Foster case will suffice.

On April 9, 1995, Pritchard ran a story in the *Sunday Telegraph* asserting that the White House had falsified both the time and place of Foster's death. This was based on a claim by Roger Perry (remember him, one of the "Troopergate" sources?) that Helen Dickey, Chelsea Clinton's governess, had called the Governor's Mansion in Little Rock about Foster's death two hours before the Secret Service and the White House had officially been notified. Pritchard's story was quickly reprinted as an ad in the *Washington Times*—paid for by Richard Mellon Scaife money—and was repeated in the *New York Post* and the *Wall Street Journal*, and, of course, created a sensation on the Internet. Sen. Al D'Amato (R-N.Y.) was urged to call the trooper and Dickey as witnesses to the Senate Whitewater hearing; he did so, and the story totally fell apart. Dickey testified that she had learned about Foster's death hours later, after the news was already public.

Another Evans-Pritchard "exclusive" was a May 21, 1995 story, "Revealed: Clinton Aide Made Mystery Trips to Geneva; Secret Swiss Link to White House Death," in which he claimed that Foster "had clandestine dealings in Switzerland," and had taken two secret trips to Geneva, Switzerland in 1991 and 1992, and that he had bought another ticket for July 1, 1993, a few weeks before he died, which was never

used. No evidence was ever found concerning the alleged secret trips; Foster's credit card records showed no such purchases, although Pritchard claimed Foster's credit card was used. Pritchard himself gave up on his great "scoop": It is nowhere mentioned in any of the more than 200 pages that Pritchard devotes to minute details of the Foster case in his book *The Secret Life of Bill Clinton*—a rather dramatic repudiation of his own story.

Evans-Pritchard's U.S. field expedition

by Edward Spannaus and Scott Thompson

After spending the first two years of his sojourn in the United States primarily concocting sex-scandals and other calumnies against President Clinton, Ambrose Evans-Pritchard increasingly devoted his efforts to attempting to shape the creation of a populist movement in the United States, based upon hatred of Bill Clinton, hatred of the Federal government, and ultimately, hatred of the United States as a constitutional republic.

Quite a menu for a journalist—but Evans-Pritchard is no mere journalist. As his close friend, *American Spectator* editor R. Emmett Tyrrell, wrote: "Unlike many foreign journalists here, who treat their stint in the New World as a holiday, Mr. Evans-Pritchard treats it as a serious anthropological expedition."

An examination of the background of Ambrose Evans-Pritchard and his father, Sir Edward Evan Evans-Pritchard (one of Britain's leading twentieth-century anthropologists), shows that both, in their own way, are among the "myth makers," who have corrupted the souls of men to ensure rule of the British monarchy and its financier oligarchy.

On Feb. 10, 1994, in a conversation with author Scott Thompson, Ambrose Evans-Pritchard admitted that he had been "swapping information" with British intelligence on how to target President Clinton. His collaboration with British intelligence dated back at least from the time when he was a reporter covering all sides of the "dirty war" in Central America, at which time he began reporting to the British political attaché in Managua, Nicaragua, whom he knew to be an agent of MI6. (At the time, Ambrose Evans-Pritchard was principally a free-lance journalist, writing articles for such magazines as *The Economist*.)

Evans-Pritchard had the unequalled ability to "befriend" both the supposedly "right-wing" Nicaraguan Contras, and

also the “left-wing” guerrillas in El Salvador and Guatemala. He also traveled to Chiapas, Mexico, where he interviewed “indigenist” guerrilla Zapatistas, whose movement had been shaped by Anglo-French anthropologists.

Even more astonishing, Evans-Pritchard said that in 1986 he went to Peru for meetings with the Shining Path narco-terrorists—another “indigenist” terrorist group shaped by Anglo-French anthropologists. Evans-Pritchard reported traveling by canoe up a river until he encountered a cocaine lab run by Shining Path terrorists, who he said were happy to release him after only a week of “captivity.”

A veritable Lawrence of Africa

Sir Edward Evan Evans-Pritchard, was born on Sept. 21, 1902, the son of Rev. John Evans-Pritchard, a vicar of the Church of England. At Oxford University, he studied under A.R. Radcliffe Brown, who introduced structural anthropology to Britain. Upon graduation, Sir Edward worked together with the British Colonial Office (overseeing what was then called the Anglo-Egyptian Government), where he developed the myth of “the Nilotic tribesmen,” which has been a crucial part of the British intelligence effort to destabilize Sudan.

One of Sir Edward’s first subjects was the Dinka tribesmen in southern Sudan. (John Garang, who currently heads the Sudanese People’s Liberation Army insurrection against the government in Khartoum, with support from Uganda’s “Little Hitler” Yoweri Museveni, is a Dinka tribesman.)

In 1930, Sir Edward began his “classic” study, *The Nuer: A Description of Livelihood and Political Institutions of a Nilotic People*, which remains a bible for the destabilization of Sudan today. Among the “political structures” stressed by Sir Edward was the constant warfare of “each against all” among the “Nilotic tribes,” especially between the Nuer and the Dinka.

During World War II, Sir Edward was seconded to British military intelligence. He took part in many operations, including posting in a special Army unit, whose role included pitting Abyssinian tribes against the Italians in Ethiopia and also driving French forces out of Syria through a British-organized peasant revolt.

Perhaps his most important operation involved striking across the Western Desert with the Bedouins to fight General Rommel’s forces. Although he had ostensibly undergone an “aesthetic conversion to Catholicism” while convalescing for part of the war, according to Ambrose, there is no doubt from Sir Edward’s book *Cyrenaica and Sanusi*, among other works, that he was really a mystic. In the Western Desert, Sir Edward won the Sufi mystics to the side of Britain, then installed their head, Idris, as King of Libya after World War II.

It is this anthropological “myth-making” tradition, arising from Sir Edward’s work with the Colonial Office and British intelligence—playing with human beings like dolls—that Ambrose carries on today.

Profiling the militias

Already in February 1995, Ambrose Evans-Pritchard was writing about the “cultural revolution” being proclaimed in the wake of the U.S. November 1994 elections, and the radical Republican takeover of Congress. He quoted Southern League founder Tom Fleming of the pro-separatist *Chronicles* magazine, as arguing that the whole political structure of the U.S. was based on corruption, and saying that the United States “can’t be held together, except by force.” This was to become one of Pritchard’s favorite themes.

Shortly after the April 19, 1995 Oklahoma City bombing, Ambrose travelled to Oklahoma City to begin his anthropological profiling of the militia movement. His lead article in the April 23, 1995 *Sunday Telegraph* was headlined “U.S. Militias Prepare to Resist FBI”; he wrote that the militias “are drawing up battle plans to protect themselves from a nationwide crackdown by federal authorities.”

In a followup article a week later, he betrayed his deepest concern: the prevalence of anti-British sentiments among militia members. Under the headline “The British Are Coming,” he wrote that anti-British themes have “taken deep root in parts of the U.S. militia movement. . . . So far nobody seems willing to blame the Queen outright for the Oklahoma bombing; but the hand of the Royal Family is seen at work everywhere.” He then described various theories floating around the militias about British control of the U.S. Federal Reserve, the New World Order, and so on, and continued: “Cultural anthropologists say that this millennialist concern with a New World Order is a symptom of a society under stress, perhaps one heading for disintegration. It is puzzling that the British should be considered the villains of the piece. . . . It all has something to do with the mythology of the American Revolution. . . .”

From that point on, Evans-Pritchard’s efforts were increasingly directed toward redefining and reshaping the ideology of the militias and other anti-government groups. And to a great extent, he succeeded, to the point where today, Ambrose Evans-Pritchard is regarded as a “cult hero” among many anti-government groups. (Should the reader doubt this, simply spend some time on the Internet, looking up Ambrose Evans-Pritchard’s name and noting the praise lavished upon this British intelligence agent by self-described American “patriots.”)

At the time of the 1996 elections, Evans-Pritchard further refined his own perspective for the United States, projecting that Clinton’s second term would be one of “perpetual scandal.”

“Americans should brace themselves for a constitutional crisis that could drag on for months or years,” he proclaimed. “Bill Clinton is not the kind of man to step aside quietly . . . he can be expected to cling to power, until the bitter end. As for the rest of us, we would do well to plan for a period of global disorder, as the government of the world’s paramount

power succumbs to paralysis. It bodes to be a turbulent end to the 20th century—the American Century.”

Ambrose then embarked on an extraordinary field trip around the United States, stoking anti-Clinton and anti-government sentiments, and putting himself forward as the spokesman for these currents.

Dec. 8, 1996: In an article entitled “Indigenous Right-Wing Terrorism,” Pritchard profiled the Aryan Republican Army, which he called “the secret military arm of the American neo-Nazi movement.”

Dec. 22, 1996: Pritchard’s field expedition took him to San Francisco and the local Cannabis Club. Claiming that the U.S. government is carrying out “draconian repression” in enforcing anti-drug laws, Pritchard predicts that decriminalization and states’ rights are the wave of the future, and declares that “America is in the incipient stages of ‘Colombianization.’” He writes that the stage is set for “a spectacular clash between Washington and California. . . . The days are long gone when Washington could ride roughshod over the states.”

Dec. 29, 1996: Again writing from California, Evans-Pritchard declares the United States to be in the thrall of a “despotic judiciary,” and retails the line that the U.S. government is an “illegitimate regime that no longer has the moral authority to compel public obedience.” His pretext is

the action by the Federal judge in California who issued an injunction against the enforcement of Proposition 209—the referendum to outlaw all Affirmative Action programs in that state.

Jan. 26, 1997: He writes a puff-piece on the “patriotic militia movement” and how they have been falsely linked to the Oklahoma City bombing and other incidents. “The emergence of a spontaneous militia movement involving 100,000 people, in the world’s only superpower, is one of the most stunning cultural developments of the post-Cold War era,” Pritchard gushes.

April 1997: He writes his swan-song, “Goodbye, Good Riddance,” taking leave of the United States, blaming Clinton for every evil in the world, and for covering up Waco, Pan Am 103, TWA 800, the Vincent Foster case, Oklahoma City, etc.

“Even so, the truth is getting out. Unauthorized stories are reaching the public through the samizdat links of the Internet and talk radio. From there it disseminates by word of mouth, spreading a thick layer of cynicism across the country.”

Since that time, Evans-Pritchard has continued to be a feature on right-wing and populist talk radio shows and on the Internet—doing what he does best: savaging President Clinton and the United States government, promoting every manner of separatism, and “spreading a thick layer of cynicism across the country.”

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What China can expect from Clinton's visit

by Helga Zepp-LaRouche

The state visit of President Bill Clinton to the People's Republic of China from June 25 to July 3, will take place under conditions which make it essential that the two governments address the life-or-death problems which affect the population of the entire world: The continuing systemic crisis of the global financial system is claiming new victims, the second round of the Asia crisis is affecting Russia, eastern Europe, and Ibero-America, and is beginning to have serious effects in China, western Europe, and the United States. The real economy in an increasing number of countries is being hit, and unemployment is rising. And, the most explosive problem, is that the situation on the international financial markets is fully out of control, state bankruptcies are piling up, the derivatives bubble is about to burst, and the International Monetary Fund (IMF) is de facto bankrupt.

As early as April 1994, Lyndon LaRouche developed the perspective, in the course of a series of seminars with leading economists, politicians, and scientists, during a visit to Moscow, that only a return to the alliance policy of Franklin Delano Roosevelt, i.e., the alliance among the United States, Russia, and China, could represent the basis for carrying out a necessary reorganization of the bankrupt world financial system. Only such a combination of nations, around which others like India and hopefully states from other continents would group themselves, would be powerful enough to defend the interests of their populations against the international financial oligarchy.

Now there is no doubt, that President Clinton personally places great weight on the relations between the United States and China, and that he sees in them the conditions for a peaceful ordering in the 21st century; just as there is no doubt that he is fascinated by the enormous potential of Chinese culture. Also, in the realm of economic cooperation, President Clinton's orientation is on the mark, as was clearly expressed in

the policy of his late Commerce Secretary Ron Brown: state-to-state cooperation, especially in infrastructure and in other projects in the common interest, as, for example, cooperation of the Tennessee Valley Authority in the Three Gorges Dam.

Unfortunately, this is not sufficient. Since the beginning of October, at the latest, the Clinton administration has stopped taking into active consideration the reorganization of the world monetary and financial system, which LaRouche proposed, in the tradition of FDR's policy. Instead, the Clinton administration has assumed a position which is untenable even in the medium term, in that it has explicitly defended mega-speculator George Soros, who, through his attacks on the Southeast Asian currencies in spring 1997, triggered the first round of the Asia crisis, which then exploded as the regional expression of the global financial crisis, from October 1997 to January 1998.

The oligarchy's 'attack dogs'

Thus, President Clinton has taken those international financial circles under his protective wing, which in the final analysis are the ones lurking behind the assault against the institution of the American Presidency: Independent counsel Kenneth Starr and House Speaker Newt Gingrich (R-Ga.) are acting like attack dogs for the financial interests which know very well that their system has come to its end, and which, through an endless series of orchestrated scandals, including "Chinagate," and eventually an impeachment process, want to prevent President Clinton from reviving the FDR tradition and acting according to it.

Even though there have been well-meaning efforts on the part of Treasury Secretary Robert Rubin to find a "new architecture in the international financial system," the Clinton administration has in point of fact propped up the incompetent, murderous policy of the IMF in the Asian crisis and in



Presidents Jiang Zemin and Bill Clinton, during President Jiang's visit to the United States in 1997. Clinton places great weight on relations with China, but is unwilling to face the reality of the global systemic financial crisis. Therefore, anyone hoping that he will define a new China policy, along the lines of what Franklin D. Roosevelt would have done, will be disappointed.

Russia, and thereby, as Malaysian Prime Minister Dr. Mahathir bin Mohamad has correctly established, helped to spoon out the medicine which will kill the patient. A continuation of the policy which Soros, the IMF, and the World Bank stand for, means, with 100% certainty, that an uncontrolled disintegration of the international monetary and financial system will ensue—and it is precisely this, which would plunge the administration into the abyss. As things stand at the moment, the Clinton administration is threatened with overthrow, not through the actions of Starr and Gingrich, but through its own financial policy.

Therefore, anyone who is hoping that President Clinton will define a new China policy, oriented toward correcting the axiomatic errors of the current economic and financial order, will be disappointed. As long as President Clinton follows the policy of consensus, which led him in 1996 to make a fatal compromise with the Republicans on the Welfare Bill, he will not face the reality of the systemic finance crisis. Consensus politics and reality-oriented thinking and acting, are mutually exclusive.

Nevertheless, the form of reorganization which Lyndon LaRouche has proposed, with his concept of a New Bretton Woods system, remains the only alternative to worldwide chaos and a collapse into a new Dark Age. However, the initiative is not to be expected under current conditions, from the United States or from western Europe.

The financial and economic crisis in Asia is not the “fault” of the governments there, but rather, Asia is simply the region where the worldwide casino economy, created through 30 years of neo-liberal policies, happened to blow up first, triggered, but—note well—not caused by George Soros. The

characteristics of the crisis make clear, however, that despite tertiary problems, nations such as China, India, Indonesia, and other Southeast Asian states have a fundamental common interest.

Reconstruction measures

Internationally operating currency speculators and globalization represent a threat to the existence of the nations of South, Southeast, and East Asia and their populations. Unscrupulous financial interests destroy within a few weeks, what hundreds of millions of people have worked their entire lives to build, and thrust them into hunger and chaos. If it is to be at all possible for national governments to spare their populations untold suffering, then they must unite around the idea of a revival of the Non-Aligned Movement, and together resist the pressure of globalization and defend their economies through a package of protectionist measures.

China and India, which alone represent 40% of the world population, must constitute the kernel of a new bloc, and, together with the other threatened nations of the region, claim the same right that the United States under FDR, or Germany, for example, in the postwar reconstruction phase, claimed. Banking policy must be oriented to the creation of a scientifically and technologically advanced internal market, along the lines of the Kreditanstalt für Wiederaufbau and the philosophy of the industrial banker Hermann Abs. This is also the only way that trade among strong, sovereign national economies can be brought to flourish.

Significantly, under the impression of the dramatically worsening crisis in Asia, India and Pakistan have broken through the barrier of technological apartheid and established

their sovereign right; and no outcry on the part of the neo-Malthusian community is going to squeeze the genie back into the bottle. Anyone who is seriously concerned to prevent the danger of the deployment of nuclear weapons, under the conditions of chaos unleashed by worldwide financial collapse, for example, in the case of the breakup of Russia, has only one alternative, namely, the concept LaRouche elaborated at the beginning of the 1980s, which President Ronald Reagan declared to be U.S. policy in 1983, known as the Strategic Defense Initiative (SDI). What is required is the most broadly arrayed development of antiballistic-missile defense, based on “new physical principles,” with whose help nuclear weapons can be rendered obsolete for the first time.

A crisis of civilization

The problem the world faces—and only in this context can “national interests” be meaningfully discussed—is the fact that the systemic crisis of the global financial system is only one aspect of a comprehensive crisis of civilization, whereby 30 years of wrong, neo-liberal policies, have thrown all institutions out of kilter. The dimensions of this crisis will rapidly overshadow everything which resulted from the collapse of the Soviet Union.

Mankind will be spared a descent into barbarism, only if a “new, just world economic order,” an idea which was last seriously discussed in the 1970s, in the Non-Aligned Movement, is implemented, allowing for all nations on this planet to seize the right to development worthy of human dignity, for all their citizens. This is possible only to the extent that all nations have unfettered access to scientific and technological progress, including access to so-called “dual-use technologies.” At the same time, protectionist measures must protect especially the weaker nations in their reconstruction phase, and a new, just system of tariffs and trade conditions must secure the international exchange of goods.

One approach to this is provided by the old Bretton Woods system, as it functioned rather well in the 1950s. The only qualitative difference required now, is that the so-called Third World must be given an equal voice, and this means overcoming as rapidly as possible the status of being the “Third World.”

It is unfortunately a fact, that the political direction of the United States, western Europe, and Japan, today, is indefensible. Even when the relevant governments would rather not hear it, it is a fact: The governments of China, India, or Malaysia are doing much more at the moment to defend the interests of their populations, and therewith, actually, those of the entire world.

We find ourselves in such a fundamental, historic, revolutionary phase, in which the question will be brought forward by force: Why should two-thirds of mankind let themselves be ordered around by the governments of less than one-third, when the policies of these governments for the past 30 years, have proven to be an utter, tragic failure?

Horn of Africa war disrupts London's plans vs. Sudan

by Joseph Brewda

The outbreak of fighting between former close allies, Isaias Afwerki's Eritrea and Meles Zenawi's Ethiopia in May, is the latest setback hitting Ugandan strongman Yoweri Museveni, who had been counting on those countries' continuing military support for his British-backed plans of establishing a Tutsi empire of “African new leaders,” dominating the entire Horn of Africa, East Africa region. But while the conflict undermines this particular British gameplan, it might serve another: the continuing effort to break up the Ethiopian state, if Eritrea moves to spark ethnic rebellions within Ethiopia, especially among the Oromo, Somali, and Gambella peoples.

The alleged basis of the dispute is a 155 square mile, rocky border area within the Ethiopian province of Tigre, 600 miles north of the capital of Addis Ababa. On May 6, Eritrean troops crossed the border, and on May 12 took control of the area, claiming it as their own. Serious fighting broke out on May 31. The Eritrean bombing of the Tigrayan provincial capital, Mekelle, on June 5, and the Ethiopian bombing of the airport in the Eritrean capital of Asmara that same day, escalated the conflict. As we go to press, tanks and troops are pouring into the region from both sides, and the war is spreading to new border zones.

The dipatching of Assistant Secretary of State for Africa, Susan Rice, into the region on May 16, in an effort to stem the fighting, and coordinated diplomatic efforts by Britain and Italy, Ethiopia/Eritrea's former colonial masters, have been unsuccessful. The common concern is that the conflict may undermine a long-standing British Foreign Office gameplan to make Uganda the overlord of a vast empire, comprising Ethiopia, Eritrea, Somalia, southern Sudan, Kenya, Rwanda, Burundi, and Congo-Zaire, all subject to looting by the British mineral cartels.

The Ethiopian-Eritrean war puts a brake on this whole invasion war plan, especially as Afwerki took the “non-lethal military assistance” given him by the United States for use against Sudan, and has instead used it against his enemies in Ethiopia.

Reality reasserts itself

Although the war was reportedly unforeseen by British strategists, observers from the region stress that it is the natural result of Ethiopian nationalism reasserting itself. At issue

is the continuing existence of the 3,000-year-old Ethiopian nation, historically the center of sub-Saharan Africa's most educated elite. The creation of Eritrea, which absorbed Ethiopia's Red Sea coast, was undertaken to aid Ethiopia's dismemberment. It originally came into being as a separate entity in the 1890s, as a result of Italian seizure of Ethiopia's coast, and remained under Italian rule through 1941. (Italy also occupied the rest of Ethiopia during 1936-41.)

After World War II, Britain took over Eritrea under UN Mandate, but its efforts to hive it off as a permanent colony joined to British Somalia proved unsuccessful, and the region was merged with rest of Ethiopia in 1952 in a federal arrangement, and unified as a province of Ethiopia ten years later. However, Britain, Italy, Israel, Egypt, and some co-thinkers in the U.S. State Department, were not pleased with Ethiopia's reunification, and immediately began supporting, arming, and deploying the Eritrean separatist movement—if for differing reasons. The British object throughout was to dismember Ethiopia, to further its efforts to fragment and occupy the Horn of Africa region.

The overthrow of Ethiopian Emperor Haile Selassie in 1974, the rise of dictator Mengistu Haile Mariam that year, the murderous war with Somalia beginning 1977, and the famines following it, have aided that assault on Ethiopia and the region. The plan was laid out by National Security Adviser and Secretary of State Henry Kissinger, who, in National Security Study Memorandum 200, written under his direction, specified Ethiopia as one of 13 nations targeted for population reduction, through war, famine, and birth control.

Finally, in 1991, Britain, with the support of U.S. Assistant Secretary of State for Africa Herman Cohen, overthrew Mengistu, and installed Meles Zenawi's Tigre People's Liberation Front and Isaias Afwerki's Eritrean People's Liberation Front in his place. Afwerki had been fighting for an independent Eritrea with foreign assistance since the 1970s. Zenawi was Afwerki's protégé, and the Tigre People's Liberation Front had been created as an Eritrean tool to weaken Ethiopia, by spreading insurgency into the Tigre ethnic region that straddles what is today the Eritrean-Ethiopian border. As soon as Zenawi took power as Ethiopian head of state (and not merely Tigre), Eritrea became de facto independent, and was declared formally independent in 1993.

Zenawi went further. On behalf of the same British scheme, Zenawi also rammed through a new, British-acclaimed Constitution, unprecedented in the world, which allows for the secession of any of the 80-odd ethnic groups within Ethiopia, if they so desire. But despite the imposition of a new, foreign-supported dictatorship, regional sources stress that an increasing number of the Ethiopian elite, including among Zenawi's own Tigrayan comrades, have determined that Ethiopia faces extinction if this process long continues. The recent Eritrean effort to seize part of Ethiopian territory, combined with resentment over Eritrea using its control of the former Ethiopian coast to impose economic

FIGURE 1
Horn of Africa



concessions on the use of its ports, has brought this conflict over Ethiopia's future out into the open.

As a result, Zenawi has been forced to move militarily against his former mentor. He has also been forced to dismiss and arrest his Eritrean palace guard, whom Afwerki had provided to oversee his personal security. According to regional sources, Zenawi's days are numbered, and power is shifting to a four-person group in the ruling central committee, who, with the backing of a powerful group within the Army, are gunning for conflict with Eritrea.

Other dangers

In the meantime, regional observers fear that Afwerki, who wants the conflict to continue for his own reasons, will seek to spread the war, through fostering ethnic rebellions within Ethiopia, with which he has had relations going back to the days when he originally patronized Zenawi and his Tigrayan rebels. Among the groups slated for rebellion are the Oromo, Ethiopia's largest ethnic group, traditionally underprivileged, who live in a vast region in the central and southern regions of the country; the Somali, living in the east, bordering Somalia; and the Gambella in the southwest, bordering Sudan. If such insurgency spreads, these observers fear, Ethiopia could go the way of Somalia or Rwanda, and plunge into an inter-ethnic bloodbath that would destroy the nation. All sources agree that the Ethiopian-Eritrean conflict is now irrepressible, adding a new element into the balance of power in the Horn of Africa.

NATO readies plans for military strikes to stop Milosevic in Kosova

by Umberto Pascali

“Yes, the situation is similar to the period preceding the 1995 NATO air strikes in Bosnia, but I wouldn’t count on a military intervention in Kosova. But even if [they occurred], . . . it would be only an initial element, it wouldn’t be the solution for Kosova. Don’t forget, the situation in the Balkans has degenerated much, much further, the institutions and the economies have crashed. Milosevic and the IMF [International Monetary Fund], paradoxically, have complemented each other.”

These comments, by a well-placed Balkan observer, were based on the initial reports coming out of the NATO defense ministers’ meeting in Brussels on June 11. The meeting focused on measures to stop the genocide in the former Yugoslav province of Kosova, where “Greater Serbia” dictator Slobodan Milosevic has succeeded in causing an exodus of terrorized ethnic Albanian civilians (who represent 90% of the population), 150,000 of whom have fled up to this point.

The ministers announced that they had “directed NATO military authorities to assess and develop a full range of options, with the mission of *halting and disrupting a systematic campaign of violent repression and expulsion in Kosova*” (emphasis added).

The plans include 1) attacks on military objectives in the territory of Yugoslavia; 2) deployment of ground troops; 3) suspension of international flights to Belgrade; 4) the establishment of a no-fly zone and a heavy-weapons exclusion zone; and 5) disruption of electronic communications. NATO’s top military officer, Gen. Klaus Naumann, the author of the plan, stressed in an interview that NATO governments must be “prepared to go all the way,” if the first military actions are not enough.

The NATO defense ministers also announced immediate military maneuvers in Kosova’s neighboring countries of Albania and Macedonia, including the launching of planes from aircraft carriers in the Adriatic Sea and from the NATO air base at Aviano in northern Italy. The planes will simulate bombing attacks, and helicopters will simulate rocket attacks. “The exercise is aimed at demonstrating NATO’s capability to project power rapidly into the region,” a NATO statement said. Indeed, the exercise is similar to the air strikes over

Bosnia that, three years ago, forced Milosevic and his Bosnian Serb puppets to the negotiating table.

‘We cannot give up Kosova’

The first official reaction from Belgrade came from one of the main advocates of ethnic cleansing, Vojislav Seselj, recently rewarded by Milosevic with the position of Deputy Prime Minister. “We cannot give up Kosova, whatever the cost, and we must defend it by all means,” Seselj said. He warned that the NATO statement must be taken seriously, and that Serbia must be prepared in every way. “The die is cast,” said a high-level military officer at NATO headquarters.

These dramatic developments follow four months of terror and devastation in Kosova, where Milosevic has carried out ethnic cleansing in an even more brutal way than he did in Bosnia. The terror and violence have reached the point, at which people are leaving their burning villages and towns en masse.

Milosevic has done this with his usual cynicism in the world of diplomatic intrigue. He has formally accepted many of the requests of the “international community.” For example, after resisting meeting directly with the Kosovars, and after organizing a fake referendum against foreign mediation, Milosevic theatrically agreed to meet the leader of the Kosovars, Ibrahim Rugova. Rugova and his people have made clear that they know this is just a ploy, and have asked that any negotiations or agreement reached with Milosevic be backed by U.S. government guarantees.

‘Greater Serbia’ diplomacy

A high-level Bosnian source explained to *EIR*: “Rugova, against his instincts and intuition, was forced to go to Belgrade to negotiate — so to speak — with Milosevic. The only reason he did it, is that the pressures coming from the international community, and in particular from the former mediator on Bosnia, Richard Holbrooke, was unbearable. It reminds me of what happened to the Bosnians in Dayton, at the peace negotiations. We had to accept conditions that we knew, on Milosevic’s part, would not be fulfilled. But they would have kept dismembering Bosnia with other means.” He added, “By

the way, in Dayton, nobody talked about Kosova, though it was such a patent injustice committed by the Milosevic regime. It just did not exist there. The tolerance of injustice has consequences.”

Milosevic’s acceptance of “direct negotiations”—in which he did not commit himself to anything—even gained him the cancellation of the sanctions that had been decided against him by the six countries of the so-called Contact Group—the United States, Russia, France, Britain, Germany, and Italy. As soon as the sanctions were lifted, Milosevic used the pretext of real or imaginary attacks by the Kosova Liberation Army (KLA) to launch, at the end of May, one of the most criminal military assaults yet against a civilian population, in which a large area of Kosova bordering Albania is being effectively wiped off the map. Of the 65,000 inhabitants in the area around the town of Decani, more than 40,000 have been forced out of their houses.

Since February, Milosevic has applied a scorched-earth strategy in Kosova, deploying the ruthless Yugoslavian Army, including heavy artillery and the Air Force, against villages and towns. He has also unleashed on the ethnic Albanian population, the sadistic “anti-terror” police—the recycled paramilitary gangs once deployed in Bosnia under war criminals Ratko Mladic and Radovan Karadzic. Furthermore, he has ordered that groups of Serb “civilians,” who, according to many witnesses, are kept in line with alcohol and drugs, and who loot and burn the homes of the Albanians, be armed to the teeth.

The secret war

The NATO measures come in the context of another war, a secret war that has been going on in Kosova, in a way similar to what happened in Bosnia. This is the war among the Western allies, that has pitted the forces representing the former empires of France and Britain, against the leading forces in the United States and Germany.

It is now on the public record, and *EIR* has played a leading role in reporting it, that the limited NATO air strikes that put an end to the genocidal war in Bosnia, were strenuously opposed by the French and British oligarchical interests who have been protectors of Greater Serbia since at least World War I. These forces have found in the racist Greater Serbia ideology, a useful instrument to control the Balkans and, thus, the north-south connection between continental Europe and the Middle East, Asia, and Africa. “France and Britain are the greater allies of Greater Serbia,” wrote Vaso Cubrilovic, the author of “The Expulsion of the Albanians,” the infamous blueprint prepared in 1930 in Belgrade for the ethnic cleansing of Kosova. (The Russians, who are painted in the Western media as the main allies of the Serbian “Orthodox brothers,” in reality play a more disinterested role. But British operations are continually trying to stir up the most fanatical “Third Rome” imperial factions in Moscow. The role of the British Lord Byron Foundation is exemplary in this regard.)

It is now known that Gen. Sir Michael Rose, the head of the British special forces, the SAS, and the military commander of the NATO forces in Bosnia, had ordered his men to sabotage air strikes against Karadzic’s gangs by U.S. planes taking off from Aviano. It is also known, that the British and the French top liaison officers with Karadzic were passing detailed information concerning NATO military plans on to Karadzic. The air strikes in Bosnia in the summer of 1995, came only after a long backstabbing war against the United States by the “greater allies of Greater Serbia.”

Now, history is repeating itself in Kosova. Said a well-informed Balkan diplomatic source: “The British have tried everything to prevent a military intervention against Milosevic in Bosnia. However, they are now in a peculiar situation: They have to show that they want to intervene, and are running out of tricks.” When asked, “Like in Bosnia in 1995?” he replied, “Exactly!”

The economic war

Unfortunately, at this point, even if air strikes were to stop the worst Nazi-like features of the Kosova genocide, this will not automatically reestablish peace. The basis for the Dayton Accords in Bosnia was the guarantee of economic reconstruction. On that basis, any ethnic group could find a common ground for collaborating in rebuilding the country, in the context of a common national purpose. But, the Dayton agreement left the most important part of securing the peace—economic reconstruction—in the hands of the IMF and the World Bank, and no real reconstruction has been carried out. The need for productive development and employment, has been forgotten. No sovereign, viable government can exist under such conditions. In fact, the different political entities in Bosnia are going in opposite directions. The Republika Srpska in Banja Luka mostly follows Milosevic. The lack of hope for the future leaves people desperate and vulnerable to manipulation; a war could resume.

As the productive economy rots away, the black market and organized crime are flourishing. The most striking example is in Albania, a nation that followed the recipes of the IMF, yet was effectively finished off as a country following the “financial pyramid” scandal last year. Now, the Albanian government no longer has direct control over anything past the city limits of the capital, Tirana. The rest is left to a virulent mixture of feudal warlords and organized crimes bosses. The Balkans is being dominated by this feudal-mafioso power structure.

The Balkan model of descent into a new feudalism has become paradigmatic of situations in which usury and organized violence destroy the sovereignty of a country. Recently, Amien Rais, leader of the second-largest Muslim organization in Indonesia, had to recognize a painful lesson about IMF strategy. He said that the Indonesian crisis could lead the country into an ethnic war, into what he called “another Yugoslavia.”

Dispel the ghosts at Brazil's Itamaraty

Some among the elites are calling for a break with the Foreign Ministry's subservience to British policies. Silvia Palacios and Lorenzo Carrasco report.

The nuclear explosions recently detonated by India and Pakistan, while they had no radioactive fallout, did produce a shock wave which devastated the illusions of the Brazilian diplomatic apparatus, which believed that, with "good behavior" and public relations, it could secure a permanent, if symbolic seat on the UN Security Council. (The five permanent members of the Security Council—the United States, Russia, China, France, and Great Britain—also constitute the so-called "Nuclear Club" of countries that possess nuclear weapons.) Now, the world strategic chessboard has been overturned, and the calculations of Brazil's pro-British factions have been dashed; some people are daring to state that Brazil should resume a foreign policy in its own national interests, rather than the interests of the British oligarchy.

The pro-British policy of Itamaraty Palace, the Brazilian Foreign Ministry, began in 1990, under the government of President Fernando Collor de Mello, a puppet of George Bush—the man who, on orders from Britain's Margaret Thatcher, sought to establish a "new world order," whose murderous nature was demonstrated in the "splendid little war" against Iraq. Collor's government was taken over by the one-worldist faction at Itamaraty; he demolished the traditionally independent foreign policy of Brazil, especially that regarding the Arab world and northern Africa, and submitted to the designs of British intelligence and its American clones.

In his two-year rule before being removed from the Presidency, Collor succeeded in reducing the role of the Armed Forces in national political decisionmaking, reversing a tradition which stems from the establishment of the Republic in 1889. He questioned the need for every high-technology project under the aegis of the Armed Forces, and echoed the campaigns of one-world-government mouthpieces, who alleged that Brazil was on the verge of producing the atomic bomb, through so-called "dual use" nuclear technology. Under these pressures, Collor yielded entirely to the "non-proliferation" policy: technological apartheid against national scientific development. Thus, Brazil began to travel down the road to signing the Nuclear Non-Proliferation Treaty.

Collor was also a carrier of the British policy for creating enormous Indian reserves in mineral-rich regions of the Am-

azon, a policy which culminated in the creation of the Yanomami reserve in 1992, as part of secret agreements with the British Crown during the 1992 UN Earth Summit held in Rio de Janeiro.

As Collor recently revealed, current President Fernando Henrique Cardoso had repeatedly begged Collor to select him as Foreign Minister, the better to personally execute this pro-British policy. Cardoso only got his wish after Collor's fall, with the advent of the Itamaraty government. As Franco's Foreign Minister, Cardoso reestablished Brazil's special relationship with England, harking back to British geopolitics of the last century.

After his election to the Presidency in 1994, Cardoso consolidated this "special relationship," which culminated in his visit to London last December, from which he departed crowned, not exactly as Julius Caesar—with whom he was compared by the dean of Cambridge University—but with the title of "Sir." The visit also revealed the hegemony inside Itamaraty of another servant of British policy, although without a title (at least in public): the Brazilian ambassador to London, Rubens Barbosa.

Itamaraty's split

Itamaraty imagined that within the "one-world" regime of globalization and the supposed decline of the sovereign nation-state, it would fall to Brazil to head up the Mercosur bloc, which would weigh in the balance between U.S. interests and those of the European Union, under London's financial hegemony.

There clearly existed a consensus inside Itamaraty that indiscriminate economic opening, the basis of monetary policy of the current Cardoso government, would bring with it a substantial increase in Brazilian exports, of an amount equal to or greater than the increase in global trade. Not only did this not occur, but the free trade opening plunged the country into enormous deficits in its balance of payments, and caused major social problems which, in certain areas of the country, already prefigure convulsions and even civil war.

Faced with the evident collapse of the financial system and the bankruptcy of globalism, and in view of the sovereign examples of India and Pakistan, Itamaraty realized that it

had lost the possibility of the permanent UN Security Council seat, and sank into an internal crisis.

A binational ecological reserve

On the one hand, there are factions which cling to the illusion that, by submitting to the dominant power of the one-worldist financial oligarchy, they will succeed in turning Brazil into a world power, forever faithful to the inheritance of a decadent pro-slavery oligarchy which survived the fall of the Empire. The kind of power they imagine is that of a Dark-Age feudalism, in which an exceptionally affluent minority would dominate the starving and illiterate masses, who fight without hope to survive.

The most recent action of this pro-British group, of which President Cardoso is the head, was the “accidental” leak of a private document prepared by Itamaraty for the bilateral Peru-Ecuador meeting, to seek a peace formula for the border conflict between those two nations, of which Brazil would be guarantor, along with Argentina, Chile, and the United States. The Brazilian proposal is nothing less than a British project to create a *binational* ecological reserve in the disputed region, to be administered by a joint Ecuador-Peru mission, which would proceed from the standpoint of “shared sovereignty.” The document is explicit in assuring “the exclusion of all military units from the region, and thus denying access by the Armed Forces to the conflict zone in 1995.”

As *EIR* charged in our issue of Aug. 22, 1997 (“The ‘Parks for Peace’ Ploy for Bloody Border Wars”), the proposal to create international ecological reserves along contested borders between countries, especially Ibero-American ones, is one of the favorite tricks of the environmentalist apparatus in the service of the British Empire, in particular, the International Union for the Conservation of Nature (IUCN). As we said at that time:

“The IUCN’s park program has been adopted by the State Department team on Peru-Ecuador, as the preferred ‘solution’ for the conflict. No one has formally raised the proposal yet at the negotiating table, but participants say they expect the park proposal to be pulled out ‘when it’s time to break the logjam.’

“Differing versions of the proposal for a ‘joint, ecological park’ have been discussed by [the Kissingerian former U.S. State Department official and now consultant Luigi] Einaudi’s team. Some say that, to ever be accepted, a border down the middle of such a park would have to be agreed on and delineated; others argue that the full IUCN program—using the park to eliminate the border altogether—should be stuck to. All the park proponents agree, however, that ‘the authority of the state will be truncated’ at the park. The key, said one former member of Einaudi’s interagency task force, is that ‘all agree that this would be non-military. . . . No armies, and have it demilitarized.’ ”

The attitude of being a bearer of British imperial policy on the continent, can only serve to strip Brazilian diplomacy of whatever shreds of credibility it still retains in the region.

Sudden conversions

On the other hand, there are serious disagreements being expressed, which reveal the internal fissures within Itamaraty, especially as reflected in the views of Ambassador Rubens Ricupero, the secretary general of UNCTAD and one of the most important “intellectuals” of Brazil’s diplomatic establishment. In an article in the May 30 *Folha de São Paulo*, Ricupero criticized globalization, asking: “Did the United States, France, Germany, and Japan industrialize because they followed the free-trade advice preached to them by England?” Answering his own question, he said: “On the contrary, the first policy of industrial protection dates back to 1791 and carries the signature of then-Treasury Secretary Alexander Hamilton. Up until World War I, the United States imposed an average tariff of 33%, three times greater than Germany’s and nine times that of England.”

Ricupero presented China as the example that Brazil should follow today. “At the IMF [International Monetary Fund] meeting in Hong Kong, I was present at the notable speech delivered by the then-Economics Minister and today Prime Minister of China [Zhu Rongji]. Impeccable, amiable, and correct in form. In substance, of great authority and independence. His message was the following: ‘If you want to give us advice, we will listen to it politely, but will not follow any of it. We have a complex country, virtually a universe. For every problem, we will first test out the solution locally. If it works, we will gradually implement it to be sure that it can be applied nationally. China is China, and the rest is the rest.’ He was given a standing ovation, by all those who say the opposite, that globalization imposed its rules on China, and not the other way around. The explanation? The minister repeated, using the same words, the song which became Frank Sinatra’s theme, ‘My Way.’ Like it or not, I’ll do it my way, follow my own path, live my own reality. Why would it be impossible for us to do the same thing?”

Also on May 30, Minister for Strategic Affairs Ronaldo Sardemberg, another of the Itamaraty “intellectuals,” in an article in *O Estado de São Paulo* headlined “The Asian Instability and Its Consequences,” reported on his recent visit to Singapore, Malaysia, and Thailand, and warned of the gravity of the situation there for Brazil. “Pure and simple optimism today sounds ingenuous,” he said.

Speaking of India and Pakistan’s nuclear tests, Sardemberg admitted that “the tests upset the nuclear status quo, and call into question the international nuclear non-proliferation framework which Brazil, in various ways, has adhered to and lent its support.”

In short, a sign of the times: conversions of those who only yesterday proclaimed the final triumph of liberalism.

International Intelligence

Zepp-LaRouche keynotes education conference

Helga Zepp-LaRouche keynoted a conference on June 6 on the need to reverse Germany's education "reform," which stripped the country of its Classical school system, originally crafted in the early 19th century by Wilhelm von Humboldt. The conference was hosted in Duisburg by the Civil Rights Movement Solidarity (BüSo), the German political party whose slate is headed by Zepp-LaRouche as chancellor candidate. Zepp-LaRouche (founder of the Schiller Institute) spoke on "The Importance of Schiller's 'Aesthetical Education' for Today's Students."

The rising tide of violence in the schools, she said, is not an educational crisis as such, but a crisis in global civilization, where cultural changes such as the drug-rock-sex counterculture have become embedded in every facet of life. What we see in this process is a slow progress of deformation, of Heideggerian existentialism "from nothing to nothing."

What differentiates man, she said, is his ability to know nature, which is based on his cognitive powers. In order to develop the cognitive powers of all humans, education must, as Humboldt stated, develop the beauty of the character. Only such a change throughout society will save us in the present situation, where the collapse of the world financial system is accelerating, she concluded.

Schiller Institute holds seminars in Croatia

Three representatives of the Schiller Institute visited in Croatia in late May, briefing Croatians on Lyndon LaRouche's proposal to implement a New Bretton Woods monetary system. In seminars, press interviews, and private discussions, Paolo Raimondi, Elke Fimmen, and Steve Corkovic located Croatia's problems in the context of the global collapse. The Zagreb stock exchange has dramatically fallen in parallel to the

developments in Russia, and a banking crisis has been aggravated by the near-bankruptcy of Dubrovacka Banka, after high-level party-linked businessmen gave unsecured loans to themselves and their friends. A run almost occurred on other banks, where rumors were spread about similar problems.

Worse, the lack of any serious international program to reconstruct the war-ravaged country has led to a drop in manufacturing and production. In a display of callousness, the European Union is threatening sanctions, if Croatia doesn't allow immediate repatriation of Serbs, leaving the country caught between social chaos and economic dislocation.

In the capital city of Zagreb, Raimondi briefed 30 people and showed an excerpt from Lyndon LaRouche's March 18 address in Washington on the New Bretton Woods. Five embassies sent representatives, including Finland, Iran, Bosnia, Hungary, and Thailand, as well as Croatian business, labor, and party representatives. In the city of Zadar, people were, at first, shocked to learn that Germany's self-destructive adherence to the Maastricht Treaty was the price for its reunification. The paradox began to make sense, when put together with the general destabilization of Europe caused by the British-run Serbian aggressions.

Leah Rabin denounces peace-wrecker Netanyahu

Leah Rabin, the widow of Israeli Prime Minister Yitzhak Rabin, blamed Prime Minister Benjamin Netanyahu for the deterioration of the peace process, during a speech to dedicate the Yitzhak Rabin Fellow in Peace and Security at Rice University in Houston, Texas on May 28. The *Houston Jewish Herald-Voice* quoted Mrs. Rabin: "It has been a cruel experience to watch what my husband achieved with a lot of sweat and with the many, many hours of hard work put into this agreement, be destroyed in front of our eyes. . . . There was always the basic assumption that we [Israelis and Palestinians] were doing something

together for the future of our children and grandchildren." Israel has overcome many obstacles, she said, including some "infinitely greater than those presented today by the Palestinians. . . . Why should we be afraid? Why should we suspect the Palestinians all of the time?"

The purpose of the Rabin Fellow, under the auspices of the James A. Baker III Institute for Public Policy, will be to sustain the dialogue on peace and security in international affairs which Yitzhak Rabin furthered. The first Fellow will be Israeli Maj. Gen. Uri Sagie (ret.), who served as Rabin's director of military intelligence.

FAO: War causing food shortage in south Sudan

Fifteen years of efforts to split the nation of Sudan apart have damaged much of southern Sudan's economy and infrastructure. Fighting and waves of refugees have destroyed the traditional trading and exchange patterns. Even in areas where local grain surpluses have been available in good years, poor infrastructure and insecurity have made transport of these surpluses very difficult.

According to a May 19 news release by the UN's Food and Agriculture Organization, 350,000 people in the Bahr El Ghazal region alone, including 150,000 who have fled from the recent fighting between the government and the Sudanese People's Liberation Army of British puppet John Garang, are at risk of starvation unless food relief is immediately distributed. Unicef has made a survey of children under five in the capital of West Bahr El Ghazal, which shows an overall malnutrition rate of 29%, of whom 9% are severely malnourished.

The FAO/World Food Program Crop and Food Supply Assessment Mission in December 1997 estimated that cereal production in southern Sudan (excluding the mechanized area of Renk) was 45% less than in 1996. Last year's drought has aggravated the situation, leading to widespread crop failures and very poor conditions for

KENYA'S ANGLICAN Bishop David Gitari issued a public statement on May 21, decrying the assassination of Rwandan opposition leader Seth Sendashonga, a former government minister who had set up his base of operations in Kenya. Sendashonga was shot by Ugandan and Rwandan gunmen in Nairobi, on May 16.

PAKISTAN has been rocked by terror bombings over the first week of June: On June 7, a bomb blew up a crowded passenger and mail train in Sindh province, killing 23 people and injuring 32. One day earlier, three bombs exploded in the Sindh city of Hyderabad, killing one and injuring ten. On June 4, a bomb blew up a movie theater in Lahore, killing three. Islamabad hinted at a "foreign hand" behind the train bombing, which India was quick to rebuff.

THE KHMER ROUGE headquarters at Anlong Veng fell to the Royal Cambodian Armed Forces on June 4, and senior KR commanders Ta Mok, Nuon Cheah, and Khieu Samphan are believed to be in flight or in hiding. Some 18,000 Khmer Rouge soldiers and families remain in refugee camps on the Thai side of the border, awaiting repatriation in advance of the July general elections. There is no guarantee that the Khmer Rouge is finished; it certainly isn't forgotten.

ARTURO SACCHETTI, artistic director of the Perosi Festival in Tortona, Italy, announced on June 3 that the Festival Orchestra will feature the world premiere of the symphonic poem "Moses," by church composer Perosi, performed by "an orchestra tuned to Verdi's A=432, in cooperation with the Schiller Institute." Sacchetti wrote the preface to the Institute's Italian translation (*Canto e Diapason*) of its *Book I: A Manual on the Rudiments of Tuning and Registration*.

PORTUGUESE Prime Minister Antonio Guterres met with British Prime Minister Tony Blair on June 3, reportedly to discuss the problems of East Timor.

livestock and pastures, and according to FAO, 60-70% of the population in Eastern Equatoria, Bahr El Ghazal, Lakes, and parts of Jonglei State, as well as the transitional zones, are currently in need of emergency aid.

European Union takes revenge on Poland

Over the first week of June, there was a dispute between the European Union leadership in Brussels and the Polish government, after the EU decided to slash a pre-entry aid program called Phare, from 212 million European Currency Units, planned for this year, to 178 million ECUs. EU representatives claim that some of the projects submitted by Poland were "irrelevant" to its preparations to become a member of the Union, and some were considered not ready for implementation.

However, *EIR's* sources in Poland charge that the decision of the Brussels bureaucrats is revenge against Polish Minister for European Integration Ryszard Czarnecki, from the Christian-National Union, who is said to be tougher in the talks with EU, than "cosmopolitans" such as Foreign Minister Bronislaw Geremek, tied to British-run speculator George Soros. The whole affair seems to have been orchestrated to get rid of Czarnecki, especially since the government, under pressure from coal miners, decided to postpone "restructuring" of the mining industry, which was demanded by Brussels. The "restructuring" would mean closing down some coal mines and laying off 120,000 miners over the next three to four years.

London terrorist MKO claims Tehran bombings

The Mujaheddin al Kalq (MKO), based in Iraq and London, officially took responsibility for bomb blasts which killed a number of people in Tehran, Iran on June 2. At least one explosion occurred in the Islamic Revolutionary Court. Conflicting reports say the

explosives were either smuggled in, or, that the explosive material was brought into the court as trial evidence, and went off accidentally. Other reports speak of bombs exploded elsewhere in the capital the same day, including at or near a military installation.

The MKO's admission on June 5, through its spokesman in Washington, D.C., is the first official acknowledgment that the group is engaged in terrorism. The spokesman reportedly told the media that the bombs had killed tens of people. The group has previously denied any such activity. The MKO was listed by the State Department last October, as one of the 30 groups banned from activity in the United States for being terrorists.

Iranian press reported that the MKO was motivated to go for terrorism, out of fear that the Iran-Iraq rapprochement under way could leave them hung out to dry by the Iraqi leadership, which has, up to the present, given them shelter.

Swedish Supreme Court rejects new Palme trial

Sweden's Supreme Court rejected a prosecution motion on May 28 to re-try Christer Pettersson for the Feb. 28, 1986 murder of Prime Minister Olof Palme. Pettersson's conviction was overturned by a higher court for lack of evidence.

Swedes' frustration with the botched investigation, which has left the assassination unsolved after 12 years, was typified by the editorial in *Dagens Nyheter* on May 29, criticizing those police investigators who had decided that Pettersson was guilty, even though there is no evidence and no confession. "No one, with full intellectual and intuitive capacity, can deal with analysis and investigation if one believes that what one is looking for already has been found. If one 'knows' that there is only one needle in the haystack, why then continue when it already has been found?" the editorial read.

"The investigation has to go on from the standpoint that the perpetrator of the crime has not been identified, but will sooner or later be found and arrested."

Fight intensifies over U.S. sanctions policy

by Marsha Freeman and Leo Scanlon

The frenetic activity in the Congress over the past few weeks, to try to usurp foreign policy, which is constitutionally the responsibility of the President, by passing legislation slapping sanctions on numerous countries, has finally drawn a strong response from the Clinton administration, and the American business and trade communities.

As was acknowledged by Undersecretary of State Stuart Eizenstat in hearings the week of June 1, the policy of trying to “influence” the behavior of other nations by threatening economic sanctions has been a dismal failure: Witness the recent testing of nuclear devices by India and Pakistan. The notion that other nations will change “objectionable” behavior by being “punished” by economic sanctions, is increasingly recognized to be ineffective, and harmful to U.S. interests. Eizenstat is leading an administration review of sanctions policies.

According to a study released on June 4 by the National Association of Manufacturers (NAM), unilateral sanctions failed to achieve the desired objective 90% of the time. What made the other 10% effective? “Those sanctions that did succeed were usually accompanied by military action,” the report states.

President Clinton’s overall policy of engagement, particularly on economic projects of benefit to the United States and other nations, has opened the door to trade, educational and scientific exchanges, and military cooperation, which has lowered tensions with Russia, North Korea, and China, and enhanced cooperation on contentious issues. The leadership of the Congress, and geopolitical think-tanks and analysts, are determined to close that door, under the guise of protecting U.S. “national security,” while seeking to bring down the President through a manufactured series of scandals that attack his foreign policy initiatives.

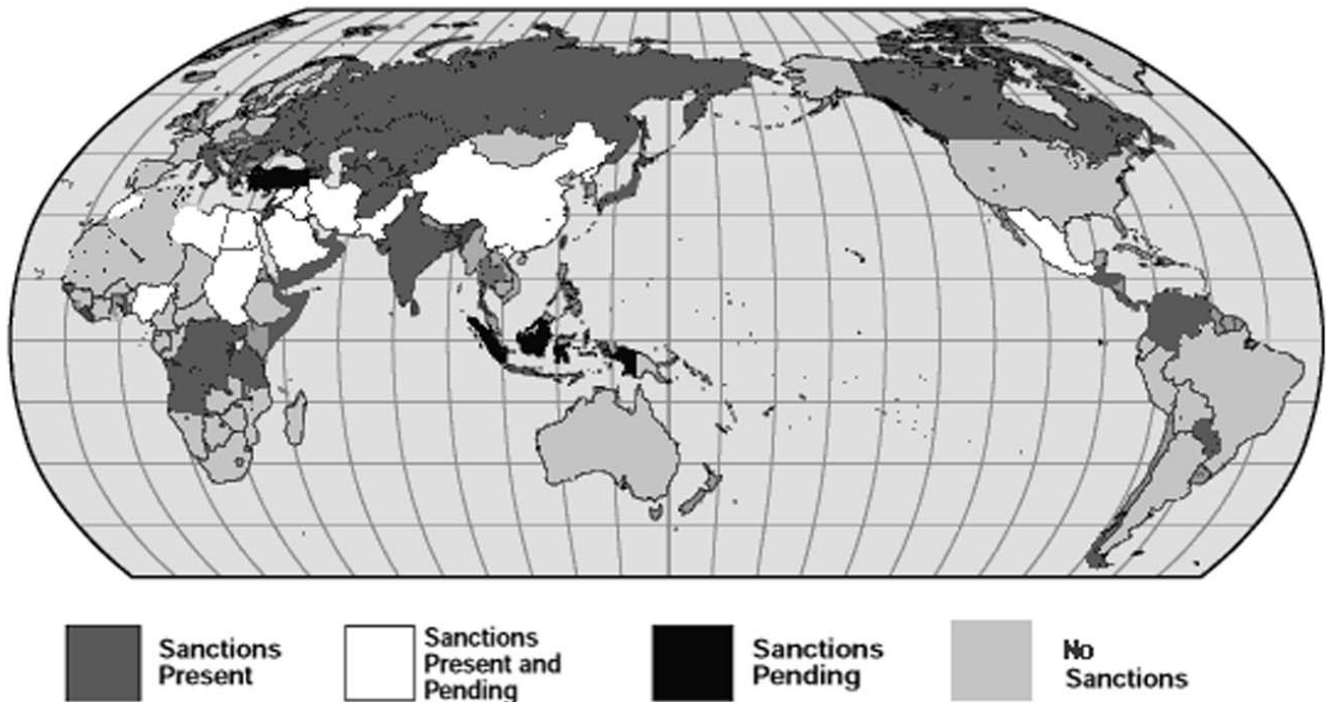
A Congress gone wild

On June 9, the House of Representatives passed a bill that would impose sanctions on Russian firms and institutions that are accused of exporting missile technology to Iran. The Senate passed a companion bill in May, and the overwhelming votes in both Houses are testimony to the suspension of critical judgment that has taken over the Legislative branch of government.

For five years, President Clinton has engaged the Russian leadership in a broad range of bilateral initiatives, including military cooperation, arms reduction, joint projects in space, commercial endeavors between companies, and health and science programs, in order to build a relationship of trust, and a framework for discussions on areas of disagreement—an approach antithetical to sanctions. Therefore, President Clinton has stated he will veto the legislation, as administration officials have described the bill as an intrusion into its ability to conduct foreign policy.

Last month, in a stampede to wreck President Clinton’s China policy and his upcoming trip there, the House voted 264-54 to prohibit the export of U.S.-built satellites to China, for launch of their commercial Long March rocket, in response to media-generated stories of supposed transfer of rocket technology to China which could “harm U.S. national security.”

In an effort to stop the potential loss of thousands of jobs and billions of dollars of satellite and other aerospace business, the Aerospace Industries Association has started a lobbying counteroffensive, urging restraint in Congress. Don Fuqua, AIA president and former Florida Democratic Representative and chairman of the House Science and Technology Committee, stated on June 9 that the association hoped the Senate would “not have a stampede mentality



*A map prepared by the trade coalition USA*ENGAGE, showing the nations that are targeted by U.S. trade sanctions. Objections are being raised against Congress using ineffective, self-destructive sanctions as a tool of foreign policy.*

take over, as it did in the House.”

These are but two examples of 26 unilateral sanctions bills that are pending in the current 105th Congress, eight of which specifically target China. Forty-three nations, and their anti-terrorism and anti-narcotics programs, could be affected by a bill before Congress to prohibit the sale of military aircraft to Latin America. Over 70 nations could face export prohibitions and controls if determined to be engaged in “religious persecution,” according to an act passed by the House on May 14. And *every* nation in the world could be a target of a bill to prohibit Export-Import financing of any country that did not cast its United Nations vote with the United States at least 50% of the time! In addition, there are 14 sanctions measures being considered at the state and local level.

The NAM has called for unilateral sanctions to be rescinded. The association points out that American exporters and their workers are being prevented from “participating in major infrastructure projects in developing countries, thereby handing over billions in contracts to our French, German, and Japanese competitors,” in the name of policies that do not work.

USA*ENGAGE, a coalition made up of 667 members, representing American business and agriculture, and including 40 national and state organizations, was organized in April 1997, to promote engagement and sustained international economic activity, and to establish a standard of accountability for sanctions. In testimony before the U.S. International

Trade Commission on May 14, USA*ENGAGE Vice Chairman and President of the National Foreign Trade Council Frank Kittredge explained that the organization was formed to work with the Congress to stop the “enormous proliferation” of unilateral sanctions in the past few years. The major impact of these, he said, has been to stymie American business participation in major developing-nation markets. He used the Chinese nuclear energy program, which U.S. companies have been legally prevented from participating in, as an example of a counterproductive sanctions policy.

NAM reports that since World War II, sanctions have been imposed over 100 times, but in just the four years between 1993 and 1997, sixty-one new laws and executive actions were enacted authorizing unilateral sanctions against 35 foreign countries, which together represent 2.3 billion potential customers for U.S.-made goods, and \$790 billion in U.S. exports.

British geopolitics

Where did this insane policy come from?

The prime mover of unilateral sanctions legislation in the Congress is the House International Relations Committee, and its chairman Benjamin Gilman (R-N.Y.). Gilman, a supporter of Benjamin Netanyahu’s Likud party in Israel, has thrown out the welcome mat at hearings for British intelligence operatives such as Baroness Caroline Cox, Lady Lynda Chalker, and other representatives of the House of Lords, who

run the network of non-governmental organizations (NGOs) that crusade against nations, under the guise of human rights violations, religious persecution, etc.

Under the direction of Christian Solidarity International, Transparency International, and similar foreign intelligence organizations, a growing clique of Congressmen, including Gilman, Frank Wolf (R-Va.), and Donald Payne (D-N.J.), has been convinced to conduct foreign policy by sanction, often in direct opposition to national economic and political interests of the United States.

Often the sanctions appear to have the support of a “grassroots” lobby, such as Christian right-wing fundamentalist. In many cases, such “grassroots” groups are funded by the same foundations and NGOs that orchestrate the international campaigns against nations that defend their sovereignty over economic development, the right to defend themselves, or just disagree with the United States.

Historical precedent

Slapping sanctions on any country at any time is a relatively new phenomenon. Even during the Cold War, sanctions were rarely applied, and it is telling, that the first American use of the sanctions weapon in that period, was not even directed at a Communist regime, but was a joint U.S.-British sanction against the nationalist Mossadegh government in Iran.

The exceptional case from the Cold War period (which is now representative of the norm), is the blockade of Cuba. That policy served as a foil for proxy conflicts with the Soviet Union, and while it has imposed severe hardships on the Cuban population, it has never been an actual threat to the Castro regime.

In the post-Soviet era, the Congress has escalated the use of unilateral sanctions. Undersecretary of State Eizenstat noted in testimony before Congress the week of June 1 that the sanctions machine now goes into gear whether it has a target or not (in the case of Indonesia, Congress was preparing sanctions legislation even as President Suharto was resigning).

One of the most destructive aspects of the sanctions proposals which Representative Gilman and his co-thinkers have championed in the Congress, is the use of unilateral sanctions which mandate retaliatory actions against nations that trade with the sanctioned country. In strictly technical terms, this third country sanction is a “secondary boycott.” When the Arab League conducted such a boycott of countries that trade with Israel, the United States all but declared war against anyone who participated, and the U.S. Commerce Department regularly suspends export licenses of U.S. firms that are caught complying with the Arab boycott of Israel.

It is all the more ironic, then, that the centerpiece of U.S. policy in the Persian Gulf, is the strategy known as the “dual containment” of Iran and Iraq, which is premised on a secondary boycott—organized by the United States. That boycott is

mandated by the Iran-Libya Sanctions Act (ILSA), known as the D’Amato-Gilman law. ILSA, and the dual-containment strategy, are reputed to be the brainchild of Martin Indyk, the Australian-born U.S. ambassador to Israel, who organized the lobbying campaign in support of the strategy while he was the director of the American Israeli Public Affairs Committee (AIPAC).

While it is a central tenet of U.S. trade policy that the Arab League secondary boycott must be renounced by any nation which expects to remain in the good graces of the State Department, the same U.S. government is enforcing just such a boycott against Iran and Libya, based on a law that has “made in Israel” stamped all over it. It has been readily acknowledged that the reports on Iran’s plans for developing so-called weapons of mass destruction come primarily from Israeli intelligence sources. The perception of hypocrisy that this engenders in the Muslim world has become a significant foreign policy problem.

A threat to U.S. national interests

Some U.S. military figures have taken the lead in urging that the sanctions strategy be dumped. Lt. Gen. Joseph Hoar, USMC (ret.), finished his career as the chief of the Central Command, and has been traveling internationally calling for an end to ILSA. He has made it clear in his speeches, that he is speaking for an institutional faction which is concerned that the sanctions policies have become a serious threat to U.S. national interests.

In a similar case, Lt. Gen. John Sheehan, USMC (ret.), who formerly commanded U.S. forces in the Caribbean, recently rocked the sanctions lobby when he toured Cuba, conducted extensive discussions with Fidel Castro, and returned to the United States to denounce the boycott, and the Helms-Burton law, which effectively imposes a secondary boycott on countries that conduct specific types of trade with Cuba. General Sheehan called attention to the fact that the boycott of Cuba is the longest-running failed policy in American history, and that the real victims are innocent children and civilians, who have no quarrel with the U.S. government.

ILSA and its corollary in the Western Hemisphere, the Helms-Burton amendment against Cuba, have contributed to a dangerous erosion of U.S.-European relations. By targeting countries that trade with Iran, Libya, and Cuba, the sanctions laws would have the United States punish its European trading partners (and Europe is our largest trading partner), and commit acts which are illegal under various international trade treaties. With the United States then painted as the bully in the picture, the sanctions laws effectively play into the hand of the British monarchy’s Club of the Isles faction in Europe, which intends to conduct trade war against the United States in Asia, Africa, Ibero-America, and the Middle East, reaping the benefit of the self-destructive U.S. sanctions policy.

The geopolitical nature of sanctions, not concern about U.S. national security, is seen in the case of Iran. ILSA has nothing to do with Iranian support for "terrorism," whether real or imagined. It has to do with geography and the control of Middle East energy supplies. And by imposing sanctions against any nation that invests in energy production capabilities in Iran, the law brings the United States into conflict with every other industrial exporter in the world, while eliminating any positive U.S. policy input into the region.

Conoco Oil, for example, spent several years opening channels to Tehran, in order to gain the rights to develop the resources of one of the largest oil and natural gas fields in the region. When the Iranian government awarded it the contract (a bold diplomatic move, considering the official posture of hostility maintained by Washington at the time), the ILSA provisions were invoked, the deal was quashed, and the contract went to a European consortium led by the French energy company Total.

A bitter Conoco executive, speaking off the record, pointed out that an entire generation of American-built drilling and transport equipment is aging in that region, and the companies that get the contracts to replace it will be calling the shots for 20 years to come. "We are pushing ourselves out of the Middle East with this strategy," he complained.

Getting back to sanity

Whatever other consequences the nuclear testing in India and Pakistan will have, the fact that there is no possibility of a Presidential waiver of U.S. sanctions, nor a determination of what would have to be done to lift the sanctions, has called increased attention to the fact that military/strategic dimensions of U.S. policy can no longer be held hostage to the geopolitical concerns of a Congressional faction that has allied itself to geopolitical activists from the House of Lords. The flurry of sanctions bills targetting China, only weeks before a Presidential visit there, is rightly seen by opponents as political grandstanding and interference with the legitimate foreign policy affairs of government.

A bipartisan group of legislators, backed by leading industrial exporters, has introduced legislation which would prevent sanctions legislation from being passed unless the economic and policy consequences were deemed to be in the national interest. Sanctions would automatically be terminated in two years, unless, after examination, it is deemed necessary to continue them.

The bill is sponsored by Rep. Lee Hamilton (D-Ind.), who is Gilman's opposite number on the House International Relations Committee, and Sen. Richard Lugar (R-Ind.), of the Foreign Relations Committee. The first week in June, Hamilton took the opportunity at hearings on sanctions policy to denounce unilateral sanctions as ineffective, damaging to vital U.S. industrial exports, harmful to innocent people all over the world, and a menace to U.S. foreign policy.

"Mr. Chairman, let me just make a brief statement in

support of H.R. 2708," Hamilton stated. "Remarkably, no U.S. law requires an assessment of the impact of foreign policy sanctions before or after they are imposed. H.R. 2708 would change that. It requires a committee reporting a unilateral sanctions bill to request an analysis by the President of the bill's likely impact on U.S. foreign policy, economic and humanitarian interests, and an analysis by CBO of its impact on the private sector. The President would be required to prepare a similar analysis of sanctions he wanted to impose."

Toll on the U.S. economy

Two sectors of the U.S. economy that have been particularly hard-hit by the array of counterproductive sanctions that have already been imposed, are agricultural exports and high-technology capital goods. In a hearing before the International Trade Commission on May 14, Iowa Farm Bureau President Ed Wiederstein stated that the Farm Bureau believes that "engagement through trade [is] the most effective means of reaching international harmony, social, and economic stability."

Current sanctions are costing U.S. wheat producers up to 50% of the world markets, Wiederstein said, and sanctions that are under consideration targetting China, Egypt, Pakistan, Indonesia, Russia, and Saudi Arabia would cost American farmers and ranchers more than \$5 billion in lost sales.

Similarly, Patricia Davis, president of the Washington Council on International Trade, testified that Washington State is the most trade-dependent state in the country, per capita. She singled out the Wolf-Specter Religious Persecution Act, as one that would potentially close many markets for agricultural exports. Sanctions imposed upon U.S. trade with China, she said, have already blocked Washington State's heavy equipment companies from participating in the Three Gorges Dam project, and Seattle-based Boeing will suffer if political shenanigans continue each year over granting Most Favored Nation status to China.

At the same hearing, experts from the Institute for International Economics testified that their studies indicate that sanctions in effect in 1995 may have reduced U.S. exports to 26 target countries by as much as \$15-19 billion, which results in a loss of more than 200,000 mainly high-paying jobs. Even after sanctions are lifted, trade may not increase, they counsel, because the United States is seen as an "unreliable supplier." In the case of capital goods, where long-term commitments for repair, maintenance, and replacement parts are as important as the initial contract, there will be hesitation to go to American suppliers.

The Hamilton/Lugar bills would be a step back toward the constitutional concept that foreign policy should be made jointly by the Executive and Legislative branches, in the national interest. It represents the principle that episodic Congressional majorities should be subordinated to the long-term interests of the nation.

Reno okays Oregon's Nazi euthanasia

by Linda Everett

On June 5, U.S. Attorney General Janet Reno put her imprimatur on the state of Oregon's new euthanasia law, and in so doing, has demonstrated once again the urgent need for Americans to take up the political battle to clean out the corrupt permanent bureaucracy in the Department of Justice (DOJ). After months of reviewing the Oregon law, Reno announced that she will not let the Drug Enforcement Administration (DEA) take action against doctors who prescribe lethal doses of drugs to allegedly terminal patients, as allowed under Oregon's "Death with Dignity Act." Worse, the Attorney General opined that since Oregonians voted to make it legal, the act of "physician-assisted suicide," historically condemned as euthanasia and for which crime against humanity Nazi doctors were hung at the 1945 Nuremberg Tribunal, constitutes a "legitimate medical practice" in that state—and in any other state that favors similar laws. The DOJ ruling is being hailed as a major boost to the U.S.-British Euthanasia Society goal of "suicide" ballot initiatives across the United States.

The current imbroglio dates to the 1997 U.S. Supreme Court's rulings on "physician-assisted suicide," which, in a hideous abdication of the Nuremberg precedent against the Hitlerian ethic of eliminating lives "not worthy of life," left it up to the states to decide if such Nazi crimes are legal. This is exactly what Oregon voters did last November.

The *New York Times*, for example, which hailed the DOJ decision, editorialized that the judgment of Oregon voters "should not be subject to Federal interference." Reno's decision, it said, "allows voters in all states to act according to their values."

The LaRouche movement had warned, that the philosophy behind the Supreme Court rulings—such as that of Justice Antonin Scalia, that current majority opinion, not principle, should determine the law—would lead to precisely the danger now faced with the Oregon law.

Almost immediately after the Oregon vote, the Clinton administration warned that the Federal government would impose sanctions on physicians who prescribed lethal doses of drugs for the purpose of assisting in a patient's "suicide"—just as similar actions were threatened in the aftermath of the California ballot initiative to make the use of marijuana legal for alleged medicinal purposes. Doctors are licensed by states to practice medicine, but they must register with

the DEA (a division of the Justice Department) to prescribe controlled substances, including barbiturates, the drug of choice in "assisted suicide." The Controlled Substances Act (CSA) allows doctors to prescribe drugs for "legitimate medical purposes" only. According to DEA Administrator Thomas Constantine, a doctor's use of lethal drugs to help kill a patient is not a legitimate medical purpose.

Reno's decision overturns the DEA ruling. It says that doctors who kill in accordance with Oregon's law have full immunity from liability and any adverse disciplinary action. In her ruling, she cites a provision of the CSA that provides criminal penalties for physicians who dispense controlled substances beyond "the course of professional practice," and that revokes DEA drug registrations of physicians who engage in such criminal conduct or in other "conduct which may threaten the public health and safety." This, Reno contends, was meant to prevent trafficking in drugs, whereas Congress never meant for the CSA to "override a state's determination as to what constitutes legitimate medical practice in the absence of a Federal law prohibiting that practice." Since Oregon voters decided that physician-assisted suicide should be authorized, Reno says, the DEA would not prosecute doctors who are in compliance with Oregon's "suicide" law.

Unenforceable

Reno claims that the CSA could be enforced, "where warranted," against doctors who assist in suicides in states where the practice is banned. If so, where has the DOJ been for eight years, while a cottage industry of underground killers, such as Michigan lunatic Jack "Dr. Death" Kevorkian, has mushroomed? Kevorkian, who once told a judge that the "self-elimination" of "diseased and crippled lives . . . can only enhance the preservation of public health and welfare," has, so far, killed 120 people with gas, lethal injection, and cyanide. According to Oakland County, Michigan's Medical Examiner, Kevorkian's team "chopped out the kidneys" of their latest murder victim. Does this atrocity warrant DOJ intervention?

Reno also claims that the CSA could enforce the law against doctors who don't comply with state rules on who is eligible for "suicide assistance." But, in Oregon, the death mob actually wrote the law to make "infractions" unenforceable. No one, not the state or public health officials, not law enforcement authorities or medical groups, has any idea how many people are being killed, or if those providing "suicide help" are law-abiding.

For example, the Compassion in Dying (CID) group, which wrote the Oregon law, orchestrated its first publicized "suicide" of an allegedly terminal woman, who wanted to die because she could no longer do the things that she enjoyed, like gardening. The suicide law says a patient must see a counselor if her doctors think her judgment is impaired by depression—which is why two of her doctors turned down

her suicide request. She was, in their words, not a candidate for suicide. Her own physician, who knew her best and the longest, said she was depressed. But, Dr. Peter Goodwin, who never met the woman, decided she was just frustrated. Instead of getting help for depression, he sent her off to a pro-suicide doctor to get her the needed drugs. This “successful suicide,” the CID crowed, “went by the book.”

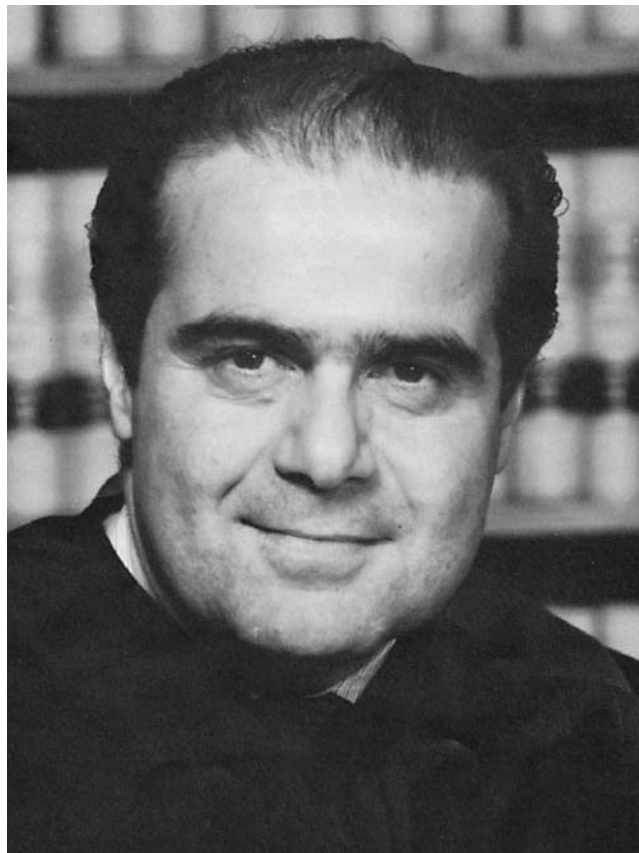
The other point, is Oregon’s own complicity in these crimes. The state’s Medicaid commission voted to pay for “assisted suicide” for its sick poor and disabled in Oregon’s Medicaid rationing plan, which denies them life-saving or life-sustaining treatments and medications, which creates a novel definition for the medical term “terminal.” And, the health maintenance organizations and managed-care companies contracting in the Oregon Medicaid plan are allowed to deny, or just not offer, those critical treatments whenever they decide the patient’s life is “not worth” their resources.

Among the institutions against the DOJ action are the Catholic Health Association and the National Conference of Catholic Bishops, which denounced the Justice Department for abdicating “its responsibility to protect vulnerable people from deadly harm.” Agudath Israel, a national Orthodox Jewish group, told *EIR* that they are “disappointed” with the Reno decision, and echoed their concern outlined in an *amicus curiae* (friend of the court) brief to the U.S. Supreme Court, about laws and judicial rulings that undermine pro-life principles.

Oregon’s Dr. Gregory Hamilton, president of Physicians for Compassionate Care, which fought the Oregon suicide initiative, said: “To medicalize suicide, treats some people like their lives are no longer worth living. That stigmatizes and discriminates against a whole class of citizens. The Federal government should not allow any state to stigmatize and discriminate against the seriously, perhaps terminally ill by treating their lives as if they were no longer worth living.” Congress, he said, must make it clear that “*using drugs to kill is not medical*. It never has been and it never will be” (his emphasis).

Federal ban proposed

In the wake of the Reno decision, U.S. Sen. Don Nickles (R-Okla.), referring to the Oregon suicide measure, wrote: “One state’s referendum rescinding criminal penalties for assisting a suicide does not magically transform a lethal act into a legitimate medical practice within the meaning of Federal law.” Nickles, along with Reps. Henry Hyde (R-Ill.) and James Oberstar (D-Minn.), have introduced “The Lethal Drug Abuse Prevention Act of 1998” (H.R. 4006 in the House), which would amend the CSA to prohibit the dispensing or distribution of drugs for “causing or assisting in causing, the suicide, euthanasia, or mercy killing of any individual.” This provision, however, appears to endorse the suicide “alternative” of arranged (by doctor, family, or patient) “terminal sedation,” where patients who are not necessarily “terminally ill,” are given enough morphine or other drugs to put them



Supreme Court Associate Justice Antonin Scalia. His legal philosophy, that majority opinion, not principle, determines law, is fostering the spread of euthanasia in the United States.

into a coma, until they die days later of dehydration. Oregon leads the nation in this “medical” use of morphine.

The amended CSA provision does not apply to the dispensing and distribution of drugs “for the purpose of relieving pain or discomfort (even if the use of the controlled substance may increase the risk of death).” The bill, prepared in consultation with the American Medical Association, the American Academy of Hospice and Palliative Medicine, and the National Hospice Association, also proposes to establish a Medical Review Board on Pain Relief. This has to be studied carefully, because there are many sophisticated pain relief methods available that are not medication-based and do not induce death, which pro-assisted-suicide groups largely do not use.

Despite President Clinton’s long-standing opposition to assisted suicide and the fact that he has signed a law banning the use of Federal funds for it, Reno says there is no evidence that Congress intended to assign the DEA the role of resolving the morality or legality of the issue. But, she has done just that, with a decision that makes *negotiable* the notion that each individual is made in the living image of God, and is therefore worthy of all of society’s benefits and protections.

Budget resolution passed in House

On June 4 and 5, the House passed a budget resolution by a vote of 261-204, well after the April 15 deadline set in law. Budget Committee Chairman John Kasich (R-Ohio), the author of the resolution, claimed that all it does is cut "only" \$100 billion out of a projected \$9.1 trillion in spending over the next five years. He railed against the Clinton administration's plan, for its \$150 billion in new spending, 39 new entitlement programs, 85 new spending schemes and, in general, too much "big government." He complained that too many people in the Democratic Party "believe in running America from the top down."

Democrats pointed out that the \$100 billion in spending cuts doesn't come out of the entire budget, but rather only from a portion of it. John Spratt (D-S.C.), the ranking minority member on the Budget Committee, said that what Kasich proposed "is a budget that would unrealistically lower discretionary spending," which amounts to only about one-quarter of the budget. On top of that, the cuts don't happen this year. "We will adopt them now, and on the strength, the promise that they are going to be realized, we will do a big tax cut," said Spratt.

Another target of Democrats' complaints was the late hour of the debate, which began at 11 p.m. on June 4. David Obey (D-Wisc.) commented that the Kasich budget was only designed to get the Republicans "through the night," and that they wanted to debate "when nobody is watching because they are so embarrassed by it [that] they would not bring it to us in the light of day."

Two substitutes were voted on before the vote for final passage, one written by the Conservative Action

Team (CAT), which had the support of Majority Leader Dick Armey (R-Tex.), and a Democratic substitute put forward by Spratt. The CAT's plan, which was even more radical than the Kasich plan, proposed \$150 billion in tax cuts, \$280 billion in spending cuts, and a 56% increase in defense spending over five years. It also contained a provision that 50% of budget surpluses would go to paying down the Federal debt.

Minority Whip David Bonior (D-Mich.) said the Democratic alternative would have protected the Clinton administration's priorities, including education, the environment, health care, and Social Security. The CAT plan was rejected by a vote of 158-262; the Democratic plan was voted down 164-257.

Food stamps restored for immigrants by House

On June 4, the House passed the conference report on the agricultural research bill, by a vote of 364-50. The bill had been stalled on a procedural vote on May 22, when the GOP leadership attempted to strip out a provision restoring food stamp benefits to certain categories of legal immigrants. This time, the bill was brought to the floor on a unanimous consent agreement and the Republicans tried to kill it using the unfunded mandates law of 1995.

Rules Committee Chairman Gerald Solomon (R-N.Y.) raised a point of order against the bill, arguing that because it lowers each state's reimbursement for administrative costs in the food stamp program, the result would be "to force every single senior citizen homeowner in America to pay more real estate taxes."

However, Agriculture Committee

Chairman Bob Smith (R-Ore.) pointed out that "state funds are already being used for the very purposes that we talk about here . . . regarding legal aliens' food stamps," benefits which were denied by the 1996 welfare reform bill. Charles Stenholm (D-Tex.) added that, because of the way the food stamp program interacts with the Temporary Assistance to Needy Families (TANF) program, the block grant program created by the 1996 welfare reform bill, some states are being reimbursed twice for the same administrative costs. Stenholm said that the provision Solomon was complaining about was intended to correct this problem.

Solomon's point of order required the House to vote on whether to proceed with consideration of the bill. The vote was 324-91 to proceed.

Clinton's decision on China-MFN sparks debate

President Clinton's June 3 announcement that he would be renewing China's certification under the Trade Act of 1974 (usually referred to as Most Favored Nation trading status), has kicked off the annual debate in Congress on U.S.-China policy. Clinton's decision came as Secretary of State Madeleine Albright departed for Geneva for a meeting of the permanent five members of the UN Security Council on the India-Pakistan nuclear tests. Clinton praised China for chairing this meeting. He said, "This is further evidence of the important role China can play in meeting the challenges of the 21st century and the constructive Chinese leadership that will be essential to the long-term resolutions of issues involving South Asia." He stressed the importance of engagement in dealing with issues on which

the United States disagrees with China, such as on human rights.

House Minority Leader Richard Gephardt (D-Mo.) issued a statement opposing Clinton's decision. He focused primarily on human rights, but also took a swipe at China on trade. "China is a great power with a great people, but the Chinese government cannot be rewarded for its actions," he said.

The following day, House Rules Committee Chairman Gerald Solomon (R-N.Y.) introduced a resolution to overturn Clinton's decision. In typical neo-conservative fashion, he claimed that "appeasing Communist China has failed to encourage more decent and more responsible behavior by that criminal dictatorship in Beijing."

Recent controversy on alleged missile technology transfers to China, is expected to fuel efforts to deny China's MFN status. The day before Clinton's announcement, Senate Minority Leader Tom Daschle (D-S.D.) said, "I think there are some who are making the erroneous connection between MFN and all the other questions that have now arisen regarding our relationship with China. . . . Passage of MFN for an indefinite period of time is clearly within our best interest."

Tobacco bill bogs down amid partisan rancor

On June 9, Senate Democrats lost a cloture vote designed to move the tobacco legislation closer to a vote on final passage. Despite four days of debate, none of the pending amendments, including the Gregg-Leahy amendment stripping liability limitations out of the bill, had been voted on. Republicans complain that the bill is

a giant tax increase (proposals would increase the tax on a pack of cigarettes by \$1.10 or \$1.50), while Democrats accuse Republicans of trying to kill the bill without voting on it.

One of the issues complicating debate is an amendment by Phil Gramm (R-Tex.) to repeal the so-called marriage tax penalty (where a married working couple pay more in taxes than they would if they were single). While Democrats say they support repealing the marriage penalty in principle, Minority Leader Tom Daschle (D-S.D.) complained that Gramm's intention is to use the revenue raised by the tobacco bill to cover his tax cut. Democrats want those revenues to go to smoking cessation programs and tobacco-related health care costs.

Majority Leader Trent Lott (R-Miss.) complained on June 8 that "the bill has grown and grown and grown, and what has happened is that greed has just taken over, that it's way beyond now things that are directly related to smoking." He admitted that many of the amendments offered to the bill would damage its chances of passage. He said that Democratic obstructionism, which he described as "counterproductive," was holding up work on other bills, which would force him to take the tobacco bill off the floor soon.

Daschle restated the Democratic commitment to passing the bill. He threatened that if the GOP doesn't move the bill any faster, then Democrats would move it the hard way. "The hard way," he said, "is that we offer tobacco as an amendment to every bill that comes down the pike. We'll offer it on every bill on the calendar if that's the only way we're going to get attention to the issue."

Another complication is the bill's tax provisions. The Constitution requires that revenue bills originate in

the House, which holds up passage in the Senate until the House acts on a similar bill. So far, there has been little indication that that is going to happen.

School prayer amendment defeated in House

The House spent the afternoon of June 4 debating a proposed amendment to the Constitution that would "restore religious freedom" in the United States. The proposal went the way of many other proposed amendments, such as term limits and flag desecration, since Republicans took control of Congress in 1995. It came up 66 votes short of the 290 required for referral to the states for ratification.

The amendment would have recognized "the people's right to acknowledge God according to the dictates of conscience" on any public property, including in public schools. Charles Canady (R-Fla.) said that it was necessary because of Federal court rulings restricting such rights. He argued that Federal courts making rulings based on the idea of a "wall of separation" between church and state, really mean that "any religious influence should be removed from the public sphere."

Bobby Scott (D-Va.), reflecting the sentiment of many Democrats, said that if the amendment were to be ratified, "the religious freedoms that protect all Americans would be transformed into a divisive manifestation of the very problems the First Amendment was designed to protect us from." Scott pointed to a religious freedom statute drafted by Thomas Jefferson and passed by the Virginia General Assembly, "in response to a failed system of government-sanctioned religious practices very similar to that which would occur if this amendment is ratified."

National News

Mobe defeats California anti-union referendum

A hard-fought effort by the AFL-CIO brought about the defeat of California's ballot initiative Proposition 226—the mis-named Payroll Protection Act—in the June 2 elections. Prop. 226 would have required state labor organizations to obtain written permission from union members before withholding pay or using union dues or fees for political contributions. The Conservative Revolution had hoped to use the measure to hamstring union political activity during the 1998 mid-term elections, at a time when the 1994 Republican sweep is in trouble. Despite early polls showing up to 72% support for the anti-union law, Prop. 226 was defeated 54-46%. Similar measures are pending in a dozen states and at the Federal level.

Throughout the state, union volunteers walked more than 5,000 precincts, visited 18,000 worksites, and manned phone banks making 650,000 calls to union homes. A leading trade unionist in Southern California termed the defeat a “paradigm shift” in the state's politics, away from California's brand of the Conservative Revolution.

Study proves racial bias in death sentencing

A well-documented study issued on June 4 by the Death Penalty Information Center (DPIC) in Washington indicates that black Americans are nearly four times more likely to receive the death penalty in Philadelphia than any other race. DPIC Executive Director Richard Dieter told the weekly newspaper *New Federalist* on June 4: “This is a different kind of study. This looks at comparable cases controlled for even the differences in a person's criminal record and considers in similar cases—all things being equal—are blacks still more likely [to get the death sentence]? It's not just saying there are a lot of blacks on death row. This is a controlled study, which isolates out the issue

of race and sees whether it has an effect on sentencing. That's why it takes a few years to conduct this study, but it has a high degree of reliability.”

According to DPIC, “The gravity of the close connection between race and the death penalty is shown when compared to studies in other fields. Race is more likely to affect death sentencing than smoking affects the likelihood of dying from heart disease!”

The study was conducted by the country's foremost researchers on race and capital punishment, law professor David Baldus and statistician George Woodworth, taking a statistical review of nearly 1,000 murder cases between 1983 and 1993. Philadelphia was selected for the study, Dieter told *New Federalist*, because “the pervasiveness of this problem, the evidence of racism in Philadelphia, is glaring.” This is particularly remarkable because Philadelphia is not in the deep South, where racial injustice in sentencing has a long history, the report says.

CSIS gang wants Social Security privatization

Four U.S. Congressmen—Senators Judd Gregg (R-N.H.) and John Breaux (D-La.), and Representatives Jim Kolbe (R-Ariz.) and Charles Stenholm (D-Tex.)—pushed for new legislation to privatize the Social Security system, in a commentary in the June 7 *Washington Post*. The four are part of a 24-member commission to study Social Security, set up by the Georgetown University Center for Strategic and International Studies (CSIS). The commission also includes Donald Marron, PaineWebber investment bank chairman, whose “industry” stands to gain mightily from privatization.

The gang of four's plan would divert 2% of the 12.4% payroll tax that is paid to Social Security (6.2% paid by the employer and 6.2% paid by the employee), into individual retirement accounts (IRAs). These IRA funds would then be shovelled in to feed the stock market bubble. The Congressmen and the CSIS call their plan “moderate,” because more radical privatizers, such as the Cato Institute and various banks, advocate fun-

nelling up to 10% of the withholding tax into stocks.

In response to objections that their plan “may be too risky for lower-income individuals,” they argue that the stock market rate of return, from 1926 to 1996, has been above 7% per annum. They call this a bonus for lower income individuals. They don't mention that most of the market gain has been since 1982, and especially since 1990, and that the stock market bubble is about to come down.

Overbearing power of prosecutors aired on CNN

A televised dialogue on independent counsel Kenneth Starr's legal assault on the President, between defense attorneys Alan Dershowitz and Gerry Spence, and *National Journal* reporter Stuart Taylor, came up with some interesting conclusions regarding the systemic corruption that has infected the U.S. justice system. Speaking on CNN's “Larry King Live” on June 1, Dershowitz argued that President Clinton's lawyer should not have allowed his client to swear under oath that he had not had a sexual relationship with White House intern Monica Lewinsky. Dershowitz argued: “You never allow your client to swear to something that is in conflict with evidence the prosecutor may believe to be true.” “Even if it's the truth?” asked King. Dershowitz responded, “Even if it's the truth. You just don't do it.”

“You don't let your client walk into a perjury trap, even if he's innocent,” he added. The comments prompted Taylor later to point out: “If in fact, prosecutors in this country have such incredible power that they can frame up the most powerful man in the country, the President of the United States, so that he's afraid to tell the truth in public, that's a terrible commentary on our system of justice. We shouldn't just fire Ken Starr, which would be a start if that's true. We should junk the whole thing and start over.”

Gerry Spence agreed. “And as a matter of fact, I think that what America needs to listen to, Larry, is the proposition that if they can do this to the President of the United

GEORGE SOROS'S Lindesmith Center in New York took out a two-page ad in the *New York Times* on June 8, urging the UN to back drug legalization, to coincide with the special UN General Assembly on the drug plague. The ad was signed by Walter Cronkite, former U.S. Secretary George Shultz, former U.S. Surgeon General Joycelyn Elders, and Milton Friedman, among others.

THE ORANGE COUNTY, California Democratic Central Committee endorsed the McDade-Murtha "Citizens Protection Act," on June 8. The aim of the act, introduced by two Pennsylvania Congressmen, one Republican and one Democrat, is to rein in systemic abuse in the Department of Justice, by establishing standards of conduct, similar to those that many states have.

STANLEY ROTH, Assistant Secretary of State, met with Indonesia's new President, B.J. Habibie on June 4, and later told reporters "that we would like to be able to help Indonesia, and this requires . . . circumstances which enable the economic agreement to work." What's needed is "a resolution of the political situation." He noted that Washington is "pleased" with the release of political prisoners, labor law reforms, and greater press freedom.

'HOUSTON FIVE' jurors, whose deadlock caused the Justice Department-FBI sting against minority city councilmen to end in a mistrial, told reporters that the government should not re-try the case. "Supposedly, \$2 million have been spent on this case, and I think it would be a waste of time and money to continue with a second trial," said one.

THE AMERICAN Federation of Government Employees has launched a grassroots campaign to urge Congress to vote against the "Freedom From Government Competition Act," which would allow the government to privatize all Federal commercial activities. Some 1.4 million Federal employees could lose their jobs.

States, think what this power structure can do to little people, to ordinary people who don't have any way to protect themselves. . . . Now we can see the power, the real—basic power of the prosecution to do whatever it wants, even to the President of the United States."

Clinton reminds press: 'I'm not dead yet'

President Bill Clinton poked fun at the Washington press corps on June 4, during a victory fund dinner in Washington for South Dakota Democrats:

"I was in this grade school yesterday in Cleveland, seeing what my AmeriCorps volunteers are doing, and I was shaking hands with all the kids," he began. "And I came up to this young man—he was about so tall—he couldn't have been over seven, he was probably six. And he looked up to me and he said, 'Are you really the President?' I said, yes, I am. He said, 'You aren't dead yet?'"

"At first, I thought, what's a six-year-old kid doing reading the Washington press every day? And then I realized that, in fact, the President was George Washington and Abraham Lincoln—he thought part of the job qualification was being dead."

U.S. CSI branch splits with Swiss headquarters

The U.S. branch of Christian Solidarity International has split with the organization's Basel, Switzerland-based group, and formed what it calls the "Christian Federation International." The announcement was made in April by board chairman Faith Whittlesey (at one time, Reagan's ambassador to Switzerland), and was featured in CFI's first newsletter in May. Earlier this year, Deputy Speaker of the House of Lords Baroness Caroline Cox announced that her British branch was also splitting from Basel, and forming Christian Solidarity Worldwide.

CSI, especially under Cox and her U.S.

puppets, such as Reps. Frank Wolf (R-Va.) and Chris Smith (R-N.J.), has campaigned to destabilize governments which they claim "persecute Christians"; these nations include China, as well as Indonesia, Sudan, and Myanmar (Burma), where the campaigns against so-called religious persecution are backing armed separatists. The pro-British geopolitical goals of the new split-offs—against U.S. foreign and strategic interests—have not changed.

The split was apparently occasioned by the Swiss headquarters' demand for more centralized control, but more details are not known.

Scaife rag's tax-exempt status in jeopardy

The tax-exempt status of the American Spectator Educational Foundation, which is part owner of the Clinton-bashing *American Spectator*, is threatened, according to the online *Salon* magazine. The foundation, along with its partners in the *American Spectator*, Richard Mellon Scaife's Carthage Foundation and Sarah Scaife Foundation, may face serious problems with the IRS because of the use of tax-exempt money in the "Arkansas Project" to dig up dirt on President Clinton and possibly to influence the 1996 elections. "This wasn't a legitimate use of tax-exempt moneys," said a former *American Spectator* employee. "I would suggest that what was going on here was opposition research. . . . The Scaife foundations ought to be really sweating."

The Arkansas Project got its first money from Scaife in late 1993, and the first meeting of the Project team took place in the law office of independent counsel Kenneth Starr's friend Theodore Olson in early 1994. Ronald Burr, a co-founder of the *American Spectator* 30 years ago, was fired after he demanded an outside audit of the use of the Scaife money, and Olson took his place on the board of directors. Scaife ended his 27-year funding of the *American Spectator* last year, after it panned an anti-Clinton book by one of his poison pens.

Editorial

A matter of national security

Pressure is building in the U.S. Congress, and around the nation, for hearings to be held on the Citizens Protection Act of 1998, H.R. 3396, also known as the McDade-Murtha bill. As of this writing, 158 Congressmen from both sides of the aisle have decided to co-sponsor the bill, and the number is growing day by day.

This bill, which represents an overdue correction of the abuses carried out regularly by the Department of Justice and its prosecutors, is a matter of urgent national security for these United States. Unless the corrupt bureaucracy at the Justice Department is exposed and uprooted, the country is headed for disaster.

The strategic context for this evaluation is the pace of the onrushing financial collapse. Just as economist Lyndon LaRouche forecast back in March of this year, the "Asian" crisis has entered a second, more deadly phase, and the crisis conditions are spreading into Russia and Ibero-America. The first signs of derivatives disaster coming out of the Asian bankruptcies are also appearing, sending cold chills down the spines of the sentient bankers and policymakers in Europe and the United States. Federal Reserve Board Chairman Alan Greenspan may be putting on a brave face, but he is aware of the \$140 trillion in derivatives contracts outstanding, and he is bluffing.

What Greenspan, and the largely London-based financial interests who call the shots in the world financial markets, understand, is that the outcome of this inevitable crisis is going to be in large part determined by one crucial institution, the Presidency of the United States. Therefore, whoever most influences President William Clinton is going to control the response to the crisis. This reality is what lies behind the accelerated impeachment drive, and renewed scandals, against the President. A President boxed in and distracted by the assault which he has been under, is not likely to undertake the Franklin Roosevelt-style measures which are necessary to reorganize the financial system to the benefit of the population, and at the expense of the bankers.

Hearings on the prosecutorial abuse by the Justice Department would do a lot to put the brakes on the outrageous drive to destroy President Clinton, but in themselves would not do enough to free up the President to do what is necessary. That will require another step, the exoneration of the only individual who has shown an understanding of how to deal with this crisis: Lyndon LaRouche.

Which is why the LaRouche political movement in the United States has not only demanded that Congressmen sponsor McDade-Murtha, but also that they place the LaRouche case at the center of those hearings. There is no example of judicial abuse which more thoroughly exemplifies prosecutors' violations of citizens' rights, than the LaRouche case. Every flavor of abuse—from suborning perjury, to withholding exculpatory evidence, to intimidating witnesses (to name just a few)—was committed in the LaRouche case over the decades in which it was pursued.

Many Congressmen have not found it hard to reach the same conclusion which we have: Forcing hearings on DOJ misconduct in the LaRouche case is the most effective tool for preventing a politically motivated impeachment of the President, and facilitating the President making the right decisions to deal with the financial implosion.

Timing in this matter is crucial. The British tools in the Republican Party who are moving for impeachment are determined to move ahead this summer. If they succeed in beginning hearings on impeachment, there is no way that hearings of DOJ misconduct could occur. Therefore, the drive for hearings on McDade-Murtha has to gain sufficient momentum—preferably an absolute majority in the House of Representatives, of 218—to put those hearings on the agenda in June.

We are coming up upon five years of the politically motivated scandals against President Clinton, and ten years of the successful legal witch-hunt against LaRouche. It's time we got justice—for our nation's sake.

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